SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-106791; File No. PCAOB-2026-01)

November 2, 2026.

Public Company Accounting Oversight Board; Order Granting Approval of Amendments to QC 1000, *A Firm's System of Quality Control*, and Related Rule and Forms

## I. Introduction

On September 10, 2026, the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") filed with the Securities and Exchange Commission (the "Commission" or the "SEC"), pursuant to section 107(b)[1] of the Sarbanes-Oxley Act of 2002 ("SOX") and section 19(b)[2] of the Securities Exchange Act of 1934 (the "Exchange Act"), a proposal to adopt (1) amendments to certain provisions of Quality Control ("QC") 1000, *A Firm's System of Quality Control* ("QC 1000"); (2) related amendments to PCAOB Rule 2203A and PCAOB forms; and (3) technical amendments to Auditing Standard ("AS") 2101, *Audit Planning* (each, an "Amendment" and collectively, the "Amendments").[3] The Amendments were approved by the PCAOB on September 9, 2026.[4] On September 11, 2026, the Board adopted a technical correction to one of the proposed rules included in the Amendments and then filed the technical correction with the SEC on September 14, 2026.

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1 15 U.S.C. 7217(b).

2 15 U.S.C. 78s(b).

3 *See Public Company Accounting Oversight Board: Notice of Filing of Proposed Rules on Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms*, Release No. 34-106372 (Sept. 15, 2026) [91 FR 59354 (Sept. 18, 2026)] ("Notice of Filing of Proposed Rules"), available at https://www.sec.gov/files/rules/pcaob/2026/34-106372.pdf.

4 *See Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms,* PCAOB Release No. 2026-007 (Corrected) (Sept. 9, 2026) ("Adopting Release"), available at https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-057/2026-007-qc-amendments--final-rule.pdf?sfvrsn=75e5ad2_2.

The Amendments were published for comment in the *Federal Register* on September 18, 2026.[5] We received ten comment letters from the public regarding the Amendments.[6] This Order approves the Amendments, which we find to be consistent with the requirements of Title I of SOX and the rules and regulations issued thereunder and necessary or appropriate in the public interest or for the protection of investors.[7] The Amendments and the findings with respect thereto are discussed in further detail below.

## II. Background and Description of the Amendments

On September 9, 2024, the Commission approved QC 1000, an integrated, risk-based QC standard intended to replace the interim QC standards that the PCAOB had adopted in 2003.[8] The PCAOB stated it believed QC 1000 would lead registered public accounting firms ("firms") to significantly improve their QC systems.[9] QC 1000 was set to become effective on December 15, 2025; however, the PCAOB subsequently delayed the effective date of QC 1000 for one year—until December 15, 2026—after considering information it received from various sources that some firms had encountered implementation challenges that, as a practical matter, may be insurmountable by the effective date.[10]

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5 *See* Notice of Filing of Proposed Rules, *supra* note 3.

6 Copies of the comment letters received on the Notice of Filing of Proposed Rules are available on the Commission's website at https://www.sec.gov/rules-regulations/public-comments/pcaob-2026-01.

7 *See* Section 107(b)(4)(A)-(B) of SOX, 15 U.S.C. 7217(b)(4)(A)-(B).

8 *See 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*, Release No. 34-100968 (Sept. 9, 2024) [89 FR 74324 (Sept. 12, 2024)] ("2024 Approval Order"), available at https://www.sec.gov/files/rules/pcaob/2024/34-100968.pdf.

9 *Id.*

10 *See 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*

On September 9, 2026, the Board adopted the Amendments.[11] The Amendments were preceded by a June 2026 supplemental request for comment[12] and other outreach engaged in by the PCAOB. The Amendments were targeted to modify only certain provisions of QC 1000, as described in more detail below. Except for the targeted Amendments, QC 1000 would remain unchanged.

In the Notice of Filing of Proposed Rules, the PCAOB stated that it was proposing Amendments to QC 1000 that it believes address concerns regarding the implementation challenges identified by firms and to better align certain provisions with other quality management standards, both internationally and in the United States.[13] As described by the Board, these Amendments are designed to reduce compliance costs while maintaining the investor protection benefits of QC 1000.[14] According to the Board, although several of the Amendments the Board adopted better align QC 1000 with other quality management standards with which most firms are already complying,[15] differences

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*Forms Adopted on May 13, 2024*, Exchange Act Release No. 34-103803 (Aug. 28, 2025) [90 FR 42649 (Sept. 3, 2025)], available at https://www.sec.gov/files/rules/pcaob/2025/34-103803.pdf.

11 *See* Adopting Release, *supra* note 4. As noted above, the Board subsequently adopted a technical correction and then filed the technical correction with the Commission.

12 *See 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 (June 9, 2026) ("Supplemental Request for Comment"), available at https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-057/2026-002-qc-src.pdf?sfvrsn=92c20332_2.

13 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 3 (pointing to International Standard on Quality Management 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 (effective on December 15, 2022) and Statement on Quality Management Standards No. 1, *A Firm's System of Quality Management* ("SQMS 1"), issued by the Auditing Standards Board of the American Institute of CPAs (effective on December 15, 2025)).

14 *Id.*

15 *Id.* at 124.

remain in areas where the Board continues to believe that alternative or incremental provisions of QC 1000 better address the United States' legal and regulatory environment, the needs and priorities of the Board's stakeholders, and the Board's statutory mandate of protecting investors and the public interest.[16]

The Amendments consider the feedback the PCAOB received on its Supplemental Request for Comment and information obtained through the PCAOB's implementation support efforts (e.g., workshops, stakeholder outreach, and feedback received from firms and other stakeholders regarding implementation, including implementation guidance provided by the PCAOB), among other sources.[17] The principal Amendments adopted by the PCAOB are intended to:

- Rescind the "design-only" requirement so that QC 1000 imposes requirements only on firms that are required to comply with applicable professional and legal 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 by permitting those roles to be assigned to non-firm personnel and divided among multiple individuals (QC 1000.12);
- Rescind the requirement to have an External QC Function ("EQCF") (QC 1000.28);

[16] *Id.* at 4-5.

[17] *Id.* at 8-10.

- Narrow and simplify communication requirements relating to metrics that the firm communicates to external parties about its audit practice, firm personnel, or engagements (QC 1000.53e);
- With respect to identified engagement deficiencies, require evaluation of whether similar engagement deficiencies exist on other engagements 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,[18] while retaining a structured process, including specified factors for consideration, to guide the evaluation (QC 1000.77 and .78); and

[18] *See supra* note 13 for a discussion of other quality management standards.

- Simplify the requirements for retention of QC system documentation and abbreviate the retention period from seven to five years (QC 1000.84 and .86).[19]

The Amendments will be effective on December 15, 2026, the same effective date as the rest of QC 1000.[20] Under the Amendments, the first period for firms' evaluation of their QC systems will cover the period beginning on the effective date of QC 1000 (i.e., December 15, 2026) and ending on the firm's selected evaluation date, subject to a five-month minimum period of operation before a firm is first required to evaluate its QC system.[21] Subsequent evaluation periods will cover the 12-month period ending on the firm's selected evaluation date.[22] The PCAOB has proposed that the Amendments apply to audits of emerging growth companies ("EGCs"),[23] as discussed in Section IV below.

## III. Discussion and Commission Findings

We continue to believe that QC 1000 will lead firms to significantly improve their QC systems. We are also aware of the implementation challenges experienced by firms, including with respect to the EQCF and the "design-only" requirements, which were brought to the PCAOB's attention in connection with their implementation support

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19 *See* Notice of Filing of Proposed Rules, *supra note* 3, at 3-4.

20 *Id.* at 5.

21 *Id.* at 60, 64. The PCAOB explained that, under the Amendments, 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 for at least five consecutive months (whether due to the effectiveness of QC 1000 on December 15, 2026, or due to the firm's later becoming subject to the requirements of QC 1000). *Id.* at 60.

22 *Id.* at 62.

23 The term "emerging growth company" is defined in section 3(a)(80) of the Exchange Act (15 U.S.C. 78c(a)(80)). *See also* Inflation Adjustments under Titles I and III of the JOBS Act, Release No. 33-11098 (Sept. 9, 2022) [87 FR 57394 (Sept. 20, 2022)], available at https://www.sec.gov/files/rules/final/2022/33-11098.pdf.

efforts for QC 1000, as well as through other avenues.[24] As such, we believe it was reasonable for the Board to reconsider whether the new standard imposes costs that may not be necessary to achieve the Board's regulatory goals and, relatedly, whether there were certain aspects of QC 1000 that could be brought into closer alignment with other quality management standards with which most firms are complying.[25]

As noted above, in response to the Notice of Filing of Proposed Rules, to date, we have received ten comment letters from the public.[26] Many of the commenters expressed support for the Amendments.[27] For example, one commenter stated that it believes the Amendments will "reduce unnecessary cost and operational complexity without compromising the rigor of firms' systems of quality control."[28] Similarly, another commenter stated that it believes "the final standard benefits from greater consistency with ISQM 1, reduces incremental costs that would outweigh the benefits, and focuses on the matters most important to advancing audit quality."[29] This commenter also explained that it believed the Amendments "reflect insights gained through implementation that

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24 *See* Notice of Filing of Proposed Rules, *supra note* 3, at 7-10.

25 *See supra* note 13 for a discussion of other quality management standards.

26 *See supra* note 6 for a hyperlink to the comments received by the Commission.

27 *See* letters from Andrew Sutherland, Boeing Associate Professor of Management, Associate Professor of Accounting, MIT Sloan School of Management (Oct. 5, 2026) ("Andrew Sutherland"); Center for Audit Quality (Oct. 8, 2026) ("CAQ"); Deloitte & Touche LLP (Oct. 2, 2026) ("Deloitte"); Ernst & Young LLP (Oct. 8, 2026) ("EY"); Gary Berrigan, CISA, CC, Founder, sideLook Consulting LLC (Oct. 7, 2026); KPMG LLP (Oct. 9, 2026) ("KPMG"); Mark E. Peecher, Arthur R. Wyatt Endowed Chair in Accounting, Gies College of Business, University of Illinois Urbana-Champaign (Oct. 9, 2026) ("Mark Peecher") (support focused on removal of EQCF requirement); and PricewaterhouseCoopers LLP (Oct. 7, 2026) ("PWC").

28 *See* letter from Deloitte.

29 *See* letter from EY.

could not have been fully anticipated earlier in the rulemaking process."[30] Further, one commenter stated it believes the Amendments "will strengthen the standard's ability to drive continuous improvement in audit quality and promote consistent and scalable application across firms of varying sizes and structures."[31] Another commenter stated that the Amendments "do not diminish investor protection;" rather, they "enhance the focus and scalability of the standard by addressing implementation challenges, eliminating unnecessary costs and redundancies, and addressing unintended consequences identified following the standard's initial adoption."[32] Some of these commenters stated that they supported the PCAOB continuing to provide implementation guidance for QC 1000[33] or performing a post-implementation review of QC 1000 to evaluate whether the standard is achieving its intended purpose.[34]

Some of the commenters stated that we should not approve the Amendments.[35] One of these commenters stated that the Commission should not approve the Amendments without addressing the commenter's unresolved recommendations.[36] This commenter provided recommendations with respect to many of the Amendments as described in greater detail below.[37] Another commenter recommended that the

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30 *See id.*

31 *See* letter from KPMG.

32 *See* letter from PWC.

33 *See* letters from CAQ; Deloitte; and KPMG.

34 *See* letters from EY and PWC.

35 *See* letters from CFA Institute (Oct. 12, 2026) ("CFA") and Council of Institutional Investors (Oct. 8, 2026) ("CII").

36 *See* letter from CFA.

37 *Id.*

Commission "[i]nstitute proceedings to determine whether the [P]roposed [R]ules should be disapproved."[38] This commenter focused solely on rescinding the EQCF requirement and believes the PCAOB should have adopted the "reasonable alternative" of retaining the EQCF requirement "only for firms that issued audit reports with respect to more than 500 issuers during the prior calendar year."[39]

Commenters also provided feedback on specific aspects of the Amendments, as described below, which informed their general views discussed above.

**A. External Quality Control Function**

QC 1000 currently includes a requirement for firms with larger PCAOB audit practices (firms that issue audit reports for more than 100 issuers in the prior calendar year) to adopt and implement an EQCF that is composed of one or more persons who are not principals or employees of the firm and do not otherwise have a relationship with the firm that would interfere with the exercise of independent judgment with regard to matters related to the QC system. The EQCF is required to evaluate the significant judgments made and related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.[40]

As explained by the PCAOB, the Board proposed rescinding the EQCF requirement based on information obtained in connection with PCAOB staff implementation support efforts and outreach discussions, which revealed that implementing this requirement had proven more difficult and more costly than originally

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38 *See* letter from CII.

39 *Id.*

40 *See* 2024 Approval Order, *supra* note 8, at 6.

anticipated.[41] The Board also acknowledged the concerns raised about the costs, operability, and potentially limited benefits of the EQCF requirement, including the availability of qualified individuals to serve in an EQCF role, for firms of any size. The Board explained that rescinding the EQCF requirement meant giving up the benefits of an external second look. The external second look would have focused on the significant judgments made and related conclusions reached when evaluating and reporting on the effectiveness of firms' QC systems. The Board said that it believed those incremental benefits are difficult to quantify and potentially limited. According to the Board, the incremental benefits would come from the fresh perspectives of an individual sitting in an EQCF role, beyond the benefits already provided by other aspects of QC 1000.[42]

Many of the commenters supported the Amendment to rescind the EQCF.[43] One commenter that supported the PCAOB's rescission of the EQCF questioned the "'independent' nature of the oversight" expected to be provided by the EQCF by noting that the person(s) serving in the EQCF role "would be directly remunerated, presumably, by the very audit firms whose quality control standards they are supposed to independently and objectively evaluate."[44] This commenter also stated that he agreed with prior commenters who had concerns about the supply of talent for persons highly qualified for the EQCF role.[45] Another commenter stated that "the quality objectives of

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41 Notice of Filing of Proposed Rules, *supra* note 3, at 25.

42 *Id.* at 31-32.

43 *See supra* note 27 for a list of commenters that expressed support for the Amendments.

44 *See* letter from Mark Peecher (additionally raising concerns that the EQCF "would send the wrong signal to retail investors" and could lead to conjecture about whether "the audit profession is broken," among other things).

45 *Id.*

the EQCF seem attainable under existing PCAOB oversight and firm governance mechanisms," pointing to the "ample incentives" that senior leaders of public accounting firms already have to "develop and monitor QC systems that balance the risk of audit failures against the cost of preventing them," among other things.[46] This commenter further stated that the EQCF would impose "considerable costs without a clear promise of meaningful benefits."[47]

Conversely, some commenters opposed the rescission of the EQCF requirement.[48] These commenters stated that they would support an alternative EQCF requirement imposed on firms that issued audit reports for more than 500 issuers in the prior calendar year, if the original EQCF requirement (which has a 100-issuer threshold) is rescinded.[49] One of these commenters explained that it did not find the PCAOB's consideration of the incremental costs and limited benefits of the alternative approach in the Adopting Release to be persuasive.[50] With respect to costs, this commenter stated its belief that, even based on a cost estimate included in the PCAOB's proposal, the annual estimated cost of the EQCF requirement would amount to a small percentage of the annual average revenue of the five largest firms that would fall within the scope of the alternative approach.[51] With respect to benefits, this commenter disagreed with the PCAOB's statement that the

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46 *See* letter from Andrew Sutherland.

47 *Id.*

48 *See* letters from CFA and CII.

49 *Id.* The Board solicited comment regarding this alternative approach, among other potential alternatives to rescinding the EQCF requirement, but ultimately determined not to adopt an alternative approach. *See* Supplemental Request for Comment, *supra* note 12, at 22-23; Notice of Filing of Proposed Rules, *supra* note 3, at 133-34.

50 *See* letter from CII.

51 *Id.*

benefits of the alternative approach may be limited because the five largest firms already obtain, through existing advisory structures, some of the external perspectives that the EQCF might otherwise provide. This commenter concluded that "the PCAOB does not even attempt to qualitatively analyze whether the potential offset of incremental costs from the existing external advisory structures exceeds the potential reduction in benefits from those structures."[52] Another commenter stated that the Commission "should address the Board's claim that a firm-selected and paid overseer would have limited independence."[53]

Although we still believe the EQCF requirement could lead to some improvements in audit quality,[54] we agree with the PCAOB's assessment that the ability of the EQCF to provide an independent evaluation is limited due to the structural features of the role. Specifically, QC 1000 only specifies the minimum responsibility for the EQCF role—evaluating the significant judgments made and related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system—and otherwise mostly leaves the assignment of additional responsibilities as well as the design and operation of the role up to the firm.[55] Notably, QC 1000 does not provide the EQCF with decision-making authority and does not specify procedures to be performed by the EQCF, including the nature, timing, and extent of the EQCF's review and how any disagreements between the EQCF and firm leadership should be addressed. Although this

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52 *Id.*

53 *See* letter from CFA.

54 *See* 2024 Approval Order, *supra* note 8, at 27.

55 *See* QC 1000.28. *See also* Notice of Filing of Proposed Rules, *supra* note 3, at 113 n. 422.

flexibility allows firms to structure the role to suit their circumstances, it also means that there is a lack of clarity around the role, which could limit the potential effectiveness and independent oversight benefits the role was originally expected to provide.

Relatedly, the ability of the EQCF to conduct an objective and impartial assessment of significant judgments made and related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system rests on knowledge and understanding of the firm's operations, risks to audit quality, and the design of the firm's related quality responses. The EQCF's minimum prescribed responsibilities under QC 1000 would leave many significant implementation decisions up to the judgment of the firm, which could result in a role that is not structured effectively and does not provide the EQCF with the ability to obtain the knowledge and understanding it needs to independently identify and effectively assess the significant judgments made by the firm and the related conclusions.

In addition, the EQCF would be selected, engaged, compensated, retained, and subject to removal by the firm. We agree with the Board that these aspects of the EQCF potentially limit the independence of the role.[56] It is true that the role must be held by one or more persons who are not partners, shareholders, members, other principals, or employees of the firm and otherwise do not have a commercial, familial, or other relationship with the firm, and therefore this requirement would bring an additional, outside perspective. However, such person(s) would still be subject to the firm's oversight, which we agree with the PCAOB could create incentives to avoid challenging

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[56] *See* Notice of Filing of Proposed Rules, *supra* note 3, at 155. *See also* letter from Mark Peecher.

the judgments of the firm.[57] For example, a person performing an EQCF role may avoid challenging the judgments of a firm that conflict with investor interests if such person is concerned with preserving their position. Although an independent perspective on firms' QC systems is valuable, we agree with the PCAOB that the benefit of a fresh perspective is limited due to the structural design of the EQCF.

Furthermore, we agree with the PCAOB and one commenter that other provisions of QC 1000 mitigate the potential loss of benefits from the rescission of the EQCF requirement.[58] For example, the QC 1000 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 engagements in accordance with applicable professional and legal requirements.[59] Firms are required to design and implement quality responses to achieve these objectives (based on an assessment of the quality risks to achieving these objectives) and to reduce to an appropriately low level the risk that quality objectives will not be achieved.[60] Firm leadership is ultimately responsible for the

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57 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 155.

58 *Id.* at 32-33; letter from Andrew Sutherland.

59 *See* QC 1000.12.

60 *See* QC 1000.21.

effectiveness of the firm's QC system, and we believe the objectives of QC 1000 will continue to lead firms to strengthen their QC systems despite the rescission of the EQCF requirement. In addition, firms have an obligation to serve the public interest, reinforced by PCAOB oversight, professional obligations, and reputational and litigation risks.[61] We acknowledge commenters' concern about circumstances in which firms' interests may diverge from investors' interests[62] but, for the reasons explained above, the EQCF's structural features would limit its ability to meet commenters' expectations that it would reliably prioritize investors' interests when such circumstances occur.[63] Therefore, we do not expect the rescission of the EQCF requirement to have negative impacts on audit quality.

Moreover, rescinding the EQCF requirement will eliminate the attendant costs to firms, which include costs associated with identifying, recruiting, and onboarding individuals with the necessary expertise, independence, and availability to serve in the role, as identified by commenters to the PCAOB.[64] In the Notice, the Board explained that it had limited ability to quantify the costs and could not estimate the EQCF cost per audit for each firm. The Board also acknowledged that "the incremental costs may not impose a large per-audit burden on the largest firms given the number of issuers and broker-dealers they audit and the associated audit revenue."[65] However, we agree with

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61 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 155.

62 *See* letters from CFA and CII.

63 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 155-56.

64 *Id.* at 143-44 (acknowledging that any cost savings could be attenuated to the extent that firms have already incurred costs related to implementation of the EQCF requirement).

65 *Id.* at 149.

the Board that the incremental costs should be evaluated together with the incremental benefits the EQCF may provide, the magnitude of which is uncertain and may be limited,[66] particularly in light of our conclusions regarding shortcomings in the EQCF's ability to provide effective "independent oversight," as discussed above.

With respect to the alternative approach of applying the EQCF requirement at least to those firms that issued audit reports for more than 500 issuers in the prior calendar year, the Board explained in detail its basis for determining not to adopt the alternative.[67] Generally, the Board explained that the implementation concerns raised by commenters, including the availability of qualified individuals to serve in an EQCF role, apply to all firms regardless of the number of issuers they audit.[68] The Board noted that while the costs of the EQCF could vary substantially depending on how each firm chooses to implement the requirement, the costs could be high for the largest firms because they tend to have more complex QC systems.[69] The Board acknowledged that incremental costs could be offset to the extent these firms could modify their existing external advisory structures to satisfy the EQCF requirement.[70] Further, the Board stated

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66 *Id.*

67 *Id.* at 177-79.

68 *Id.* at 32, 178.

69 *Id.* at 178. The Board explained that it had limited information to reliably quantify the potential costs of compliance but acknowledged that the EQCF role may not pose a large per-audit burden on the largest firms. *Id.* at 149. We note that a commenter estimated that the cost of the EQCF requirement would amount to a small percentage of the annual average revenue of the five largest firms. *See* letter from CII. Nevertheless, this commenter does not explain how the relative costs of the EQCF, even if low, overcome the underlying independence issue of the EQCF, which depends on its structure.

70 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 178. The PCAOB observed that, based on information from PCAOB oversight activities, 9 of the 13 firms that would have been subject to the EQCF requirement already incorporate external advisors into their organizational and governance structures. *Id.* at 33. Although these advisory roles differ from the EQCF role and would not

that the potential limitations on the ability of the EQCF to provide an independent evaluation were due to its structural features—such as the person(s) serving in the EQCF role being selected, compensated, and retained by the firm—and that these limitations would apply regardless of the size of the firms implementing the EQCF. The Board also acknowledged that these firms would have the incremental benefit of a second look, but that benefit could be limited if such firms obtain external perspectives through their existing advisory structures.[71]

We agree with the PCAOB's analysis and do not believe it would be appropriate to institute proceedings or disapprove the Amendments so that the PCAOB could reconsider the alternative approach described above. Although it may be the case that the five largest firms could bear the burdens and costs more readily than firms that are smaller in size, the structural features of the EQCF role would not change and, therefore, we agree with the Board that the benefits of retaining the EQCF requirement for firms with more than 500 issuer audit clients may be limited. Given the other provisions of QC 1000 discussed above that mitigate the potential loss of the limited benefits, we believe that the Board's decision not to adopt the alternative approach will not negatively impact audit quality at these firms.

While we acknowledge the concerns raised by some commenters about rescinding the EQCF requirement, we find that the Amendments are consistent with the requirements of Title I of SOX and the rules and regulations thereunder and are necessary

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necessarily satisfy the requirement, they provide some of the external perspective the EQCF would have offered, which further limits the benefits forgone by rescission.

71 *Id.* at 179.

or appropriate in the public interest or for the protection of investors. In particular, we appreciate the challenges related to costs, operability, and availability of qualified individuals encountered by firms when considering how to implement this function.[72] We considered these challenges within the context of the potentially limited benefits of the EQCF requirement and our assessment that the other provisions of QC 1000 should mitigate any loss of potential benefits to investors, as discussed above. We believe the Amendments as a whole will further the Board's statutory mandate under SOX and enhance investor protection by improving the efficiency and effectiveness of QC 1000, thereby better supporting audit quality.

**B. Other Amendments**

As noted above, many commenters supported the Amendments as a whole. However, one commenter raised concerns regarding several of the Amendments.[73] The following discussion addresses concerns raised by that commenter and the basis for the Commission's finding that the Amendments are consistent with the requirements of Title I of SOX and the rules and regulations thereunder and are necessary or appropriate in the public interest or for the protection of investors.

1. *Roles and Responsibilities*

As noted above, one of the Amendments would provide increased flexibility in filling certain specified roles in the QC system by permitting roles to be assigned to non-firm personnel and divided among multiple individuals.[74] The PCAOB explained that it

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[72] *Id.* at 25, 31-32.

[73] *See* letter from CFA.

[74] *See* Notice of Filing of Proposed Rules, *supra* note 3, at 19-24.

believed that this change would, among other things, expand the pool of individuals with the requisite experience, competence, authority, and time to serve in specified roles, in addition to aligning with ISQM 1 and SQMS 1.[75] However, one commenter stated that the Commission should "reject the assignment of responsibilities to outside personnel" because such responsibilities "should be limited to internal personnel for core roles." This commenter also stated that firms should be required to report "each divided role's scope" in Form QC.[76]

We agree with the PCAOB that there are good reasons for permitting flexibility in filling certain specified roles in the QC system. Rather than taking a more prescriptive approach, audit quality—and ultimately investors—would benefit the most from ensuring that important quality control roles are assigned to the most qualified and best experienced personnel. Some smaller firms, including non-U.S. affiliates of larger firms within global networks, may not have sufficiently qualified resources within the firm and filling roles with personnel from other network member firms or outside sources may be more effective in driving quality. In addition, this approach aligns with ISQM 1 and SQMS 1, reduces costs without sacrificing benefits, and may make it easier for smaller firms to remain in the public company audit market, which may be good for competition and eventually result in cost savings for investors. Significantly, the Amendments

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75 *Id.* at 19-20, 23.

76 *See* letter from CFA. Although there is no requirement to report the specific scope of each individual's assigned responsibilities, we note that the requirements in QC 1000 for firms to establish and maintain clear lines of responsibility and supervision—including defining authorities, responsibilities, accountabilities, and supervisory and reporting lines for roles within the firm—within the QC system and to document these matters remain unchanged. *See* QC 1000.27 and .82a. Therefore, the specific scope would be available to the PCAOB in connection with its oversight activities, including inspection. *See* Notice of Filing of Proposed Rules, *supra* note 3, at 23.

emphasize that individuals assigned specific roles understand and be accountable for their roles and responsibilities.[77] We further note that the requirement in QC 1000 that the individuals assigned the specified roles must have the experience, competence, authority, and time needed to enable them to carry out their assigned responsibilities remains unchanged, and therefore we believe that these Amendments will not negatively impact audit quality.[78]

2. *Similar Engagement Deficiencies*

One of the Amendments would limit the requirement to evaluate whether similar engagement deficiencies exist so it would apply only with respect to a subset of engagement deficiencies, specifically those 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.[79] The PCAOB explained that these changes were 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.[80] One commenter did not support this Amendment. This commenter said the Commission should consider whether "recurring audit-committee communication, Form AP, or other excluded failures could or would be reliably found across engagements without the broader look-across."[81]

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77 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 20.

78 By implication, the commenter's approach would suggest that a person who has the requisite experience, competence, authority, and time would otherwise be unqualified for filling a role in a QC system if not directly employed by the firm. We disagree with any such implication.

79 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 43-54.

80 *See* Supplemental Request for Comment, *supra* note 12, at 28.

81 *See* letter from CFA.

We agree with the Board's decision to focus a firm's attention on the types of engagement deficiencies that represent the greatest risk to audit quality. The types of deficiencies identified by the commenter generally do not rise to the level of a Part I.A deficiency in a PCAOB inspection report,[82] and, hence, do not affect the reliability of the auditor's report. The objective of an audit is to produce an independent and accurate (i.e., reliable) audit report.[83] To further that objective, the QC processes that are related to identifying similar engagement deficiencies in other engagements should be focused on those types of deficiencies that could impact the reliability of the auditor's report. Importantly, QC 1000 would still require firms to evaluate QC observations related to Form AP and audit committee communications to determine whether QC deficiencies exist.[84]

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[82] "Part I.A. deficiencies" are defined by the PCAOB as deficiencies "that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or internal control over financial report (ICFR)." *See* PCAOB Issued Firm Inspection Reports, Part I.A., available at https://pcaobus.org/oversight/inspections/firm-inspection-reports; *see also* PCAOB Staff, *Guide to Reading the PCAOB's New Inspection Report*, at 2, *available at* https://pcaobus.org/Inspections/Documents/Inspections-Report-Guide.pdf. In contrast to Part I.A deficiencies, PCAOB Staff explained that Part I.B of the Inspection Report discusses any deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of noncompliance with PCAOB standards or rules. Some examples of Part I.B deficiencies include communications with audit committees pursuant to PCAOB AS 1301, *Communications with Audit Committees*, and timely and accurate reporting of other participants in the audit on Form AP pursuant to PCAOB Rule 3211. *Id.* at 4-5. *See also* Supplemental Request for Comment, *supra* note 12, at 73 ("The definition of a Part I.A deficiency aligns closely with the first criterion for evaluating whether similar engagement deficiencies exist.").

[83] An important part of the PCAOB's mission is to "further the public interest in the preparation of informative, accurate, and independent audit reports." *See* SOX section 101(a). Given this specific objective, it is appropriate for the PCAOB to re-focus firms' QC processes on identifying and addressing the types of engagement deficiencies that could impact the reliability of the auditor's report.

[84] *See* QC 1000.72. This evaluation is based on the nature, severity, and pervasiveness of the matter(s) that gave rise to the QC observation and considers the likelihood that matter(s) could affect other QC components and other engagements.

3. *Definition of QC Deficiency – Compensating Responses*

Another one of the Amendments would 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.[85] The Board explained that it was making this change because, among other reasons, the relationship across quality objectives, quality risks, and quality responses is generally not one-to-one.[86] One commenter stated that the Commission "should establish a rule-text requirement to document the linkage, testing, and operating effectiveness [of compensating responses] relied on to conclude that no QC deficiency exists."[87] We believe that QC 1000 sufficiently addresses the concerns raised by this commenter. The Note to QC 1000.A8(1) clarifies that the other quality responses (i.e., the compensating responses) can only be considered to the extent that they "achieve the relevant objective(s)." Only a well-designed, implemented, and effectively operated response can achieve a quality control objective. In addition, we believe the concept of compensating responses, including the need for them to be sufficiently evaluated before they can be relied upon, is well understood in practice given the application of a similar concept of "compensating controls" in evaluating control deficiencies under AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*. Moreover, QC 1000.82 requires firms to document their evaluation of QC

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85 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 54-58.

86 *Id.* at 54.

87 *See* letter from CFA.

observations to determine whether QC deficiencies exist and the basis for each determination.

4. *Annual Evaluation of the QC System*

One of the Amendments would revise the QC 1000 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.[88] The PCAOB explained that it was making these changes because it learned during its implementation support efforts that differences in evaluation conclusions between QC 1000 and the other quality management standards (i.e., ISQM 1 and SQMS 1) 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.[89] One commenter stated that the Commission "should preserve a meaningful early-warning signal, by restoring the stricter "effective" boundary and severity presumptions or requiring equivalent reporting of serious deficiencies." This commenter also suggested that the Commission should "require a per-deficiency severity indicator and a short explanation of how severe findings fit the overall conclusion, while acknowledging the PCAOB inspectors can review the internal Paragraph .82d record."[90]

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88 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 65-84.

89 *See* Supplemental Request for Comment, *supra* note 12, at 34-35. *See also* Notice of Filing of Proposed Rules, *supra* note 3, at 166 (explaining that the Amendments may reduce potential confusion by reducing (but not eliminating) the likelihood that firms reach different conclusions about the effectiveness of their QC system under different QC standards).

90 *See* letter from CFA. The "internal Paragraph .82d record" refers to the requirement for a firm to document the basis for the conclusion the firm reaches in evaluating its QC system. *See* QC 1000.82d.

We note that all unremediated QC deficiencies identified by a firm are required to be reported to the PCAOB on Form QC.[91] Therefore, the PCAOB should have information about all unremediated QC deficiencies. Moreover, a firm's reporting on Form QC must include a description of the specific requirements of the standard to which each unremediated QC deficiency pertains and the firm's basis for determining that it was a QC deficiency, among other information.[92] The PCAOB has sufficient expertise to assess the impact of the unremediated QC deficiencies reported by the firm. Any questions the PCAOB may have may be clarified through inspections or other PCAOB oversight activities. Taking all of this into account, it is not clear who else may need the "early warning signal" called for by the commenter, especially considering the confidential nature of all QC conclusions and the related reporting under QC 1000 and these Amendments.

Although the Amendments eliminate the requirement for firms to determine whether a "major QC deficiency" exists as part of a firm's evaluation and reporting on the effectiveness of its QC system, the Amendments nonetheless would require firms to evaluate the severity and pervasiveness of all unremediated QC deficiencies, individually and in combination, considering both quantitative and qualitative implications.[93] Therefore, we agree with the PCAOB that the Amendments do not remove the ability to

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91 *See* QC 1000.80b.

92 *Id.*

93 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 74-75. The Amendments would retain, in modified form, the factors to consider in evaluating the severity and pervasiveness of unremediated QC deficiencies, though removing the "major QC deficiency" concept as noted above. *Id.*

identify particularly severe QC deficiencies under QC 1000[94] given the explicit requirement for firms to consider the severity and pervasiveness of all unremediated QC deficiencies and the impact of the deficiencies on the conclusions regarding the effectiveness of the firms' QC systems under the amended QC 1000.77.[95]

Overall, we believe these changes to revise the QC system evaluation conclusions to align more closely with other quality management standards—while retaining a structured process to guide the evaluation—will continue to enable the PCAOB to achieve its regulatory goal of leading firms to significantly improve their quality control systems.

5. *Information and Communication*

The Amendments also narrow and simplify communication requirements relating to metrics that the firm communicates to external parties about its audit practice, firm personnel, or engagements. Specifically, the Amendments would narrow the requirements regarding the need for an explanation of written metrics to those metrics that the firm makes publicly available and would add a note 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, among other things.[96] One commenter stated that the Commission should require the PCAOB "to explain how investors can recreate a historical metric after a firm updates its website" because

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94 *Id.* at 77.

95 *Id.* at 77.

96 *Id.* at 33-40.

"[i]nvestors need dated, durable explanations and a visible notice when the method changes."[97]

We note that the Amendments do not impact the requirement in QC 1000 that any public communication of a metric include "an explanation *in reasonable detail* of how the metrics were determined *and, if applicable, how the method of determining them changed since the metric was last communicated.*"[98] Therefore, as long as a metric exists in the public domain, an explanation "in reasonable detail" of how the firm's method of determination changed since the last communication must also continue to be provided to the public. To the extent this commenter is requesting that a firm be required to archive prior public external communications even after they are no longer publicly available, we do not believe that such a requirement is necessary. We believe that, at best, such a requirement would provide limited benefit to investors beyond the prescribed disclosures discussed above and, at worst, would cause confusion. Although we acknowledge that some investors may want to understand the historical context of a firm's external communication of metrics, requiring a firm to archive prior external communications after the metrics are no longer in the public domain could be confusing because those metrics may no longer be applicable to the firm or may be inaccurate. It could also be costly and burdensome for a firm to maintain a historical archive of all prior public external communications regarding metrics. As such, we believe the Amendments are appropriately focused on ensuring that if a firm voluntarily and publicly discloses a

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97 *See* letter from CFA.

98 *See* QC 1000.53e (emphasis added).

metric, then the metric is accurate and not misleading.[99] Overall, we believe these Amendments make narrow and reasonable modifications to QC 1000's requirements related to the communication of metrics and that they are consistent with maintaining the investor protection benefits of QC 1000.

6. *Documentation - Retention*

The Amendments would simplify the requirements for retention of QC system documentation and abbreviate the retention period from seven to five years.[100] The PCAOB stated it believed that a five-year retention period appropriately balances the objective of reducing unnecessary retention costs with the need to preserve documentation relevant to the PCAOB's oversight activities.[101] One commenter stated that the Commission "should require a seven-year retention period for QC evaluation records, or a targeted extension while related audit records or an open PCAOB matter remain relevant."[102]

We agree with the PCAOB's determination that a five-year retention period is appropriate. The PCAOB evaluated the potential impacts of shortening the retention

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99 *See Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on A Firm's System of Quality Control and Related Amendments to PCAOB Standards*, Release No. 34-100277 (June 5, 2024) [89 FR 49588 (June 11, 2024)] (stating, upon adoption of QC 1000, that the requirement for firms to establish a quality objective that any communication of metrics explains in detail how the metrics were determined and, if applicable, how the metrics or method of determining them changed since the performance metrics were last communication "will prompt firms to implement targeted policies and procedures that address, for example, the quality and consistency of data and the need for context or explanation. This in turn will improve the informativeness, reliability, and comparability of such communications and to avoid misleading the intended audience."), available at https://www.sec.gov/files/rules/pcaob/2024/34-100277.pdf.

100 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 95-99.

101 *Id.* at 98.

102 *See* letter from CFA.

period and concluded that this action should not "impair PCAOB oversight."[103] We agree that a five-year retention period would not impair the PCAOB's ability to conduct inspections and to bring appropriate enforcement actions involving firms' QC systems. We similarly do not believe that the targeted extension called for by this commenter is necessary given the amount of time the PCAOB would have to initiate an action and to take steps to ensure documents are appropriately retained before the designated five-year retention period ends.[104] As such, we believe that requiring a longer retention period would result in costs without meaningful corresponding benefits. Further, we agree with the PCAOB's assessment that applying different retention periods to different categories of QC documentation could introduce unnecessary complexity and inconsistency and potentially diminish the usefulness of documentation in understanding the operation of the firm's QC system over time.[105] More broadly, we believe that the Amendments related to documentation appropriately respond to implementation challenges identified by firms without negatively impacting the overall effectiveness of firms' QC systems.

7. *Selection of Evaluation Date*

The PCAOB also adopted Amendments to allow firms to select the date as of which they annually evaluate the effectiveness of their QC systems, rather than requiring

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[103] *See* Notice of Filing of Proposed Rules, *supra* note 3, at 171.

[104] *See also* PCAOB Rule 5103, *Demands for Production of Audit Workpapers and Other Documents from Registered Public Accounting Firms and Associated Persons* (explaining that the Board and designated staff "may issue an accounting board demand for the production of audit work papers or any other document or information" in the possession of a firm or an associated person and original documents "shall be maintained in a reasonably accessible manner, shall be readily available for inspection by the staff, and *shall not be destroyed without the staff's consent*") (emphasis added), available at https://pcaobus.org/about/rules-rulemaking/rules/section_5.

[105] *See* Notice of Filing of Proposed Rules, *supra* note 3, at 98-99.

firms to evaluate as of September 30.[106] The Board explained it believed this change would respond to implementation challenges experienced by some firms and reduce the burden and costs of multiple annual evaluations that some firms could have experienced due to differences in required evaluation dates under QC 1000 versus other regulations to which they are subject.[107] One commenter urged the Commission to "require an anti-evasion safeguard because notice after the firm changes its evaluation date may not prevent strategic timing."[108] We agree with the PCAOB that QC 1000, as amended, contains other guardrails that should help deter firms from strategically changing their selected evaluation date. Specifically, the Amendments will require a firm to notify the PCAOB on Form QC if the firm changes its evaluation date and to provide the rationale for the change.[109] In addition, changing a firm's evaluation date likely would involve significant changes to many aspects of a firm's QC processes, which may act as a deterrent. Although we acknowledge that these guardrails may not actually prevent a firm's attempt to use strategic timing, we believe they increase the likelihood that such behavior would be brought to the attention of the PCAOB. Even if a firm changes its evaluation date to avoid acknowledging known or anticipated QC deficiencies within a given evaluation period, the period in which the issues existed will be captured in the firm's evaluation of its QC system at some point. Finally, a firm's deferral of its QC evaluation date would not prevent the PCAOB from inspecting a firm's QC system prior

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106 *Id.* at 58-60.

107 *Id.* at 60.

108 *See* letter from CFA.

109 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 58-59.

to the evaluation date, particularly if the PCAOB were to suspect an attempt by the firm to evade reporting of certain QC deficiencies and their impact on the effectiveness of the firm's QC system. Overall, we believe the Board's decision to allow firms to select their own evaluation date provides appropriate flexibility and reduces potential costs without negatively impacting audit quality.

8. *Requirement to Design a QC System*

Another Amendment 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 requirements with respect to any "engagement," as defined in QC 1000.[110] The Board explained that it proposed to eliminate this requirement because it would impose costs on firms that do not perform engagements requiring registration under SOX or PCAOB rules without commensurate benefits for investors.[111] One commenter, although appearing to support rescission of the design-only requirement, stated that the Commission "should require a readiness trigger at bid or appointment and a Form 1 description of the [firm's] existing QC framework."[112]

The Board addressed this issue in response to a similar comment it received. It explained that it did not believe an earlier trigger was warranted because, among other

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[110] *Id.* at 11-19.

[111] *Id.* at 12.

[112] *See* letter from CFA. We note that Form 1, the application for registration with the PCAOB, already requires firms to furnish a "narrative, summary description . . . of the quality control policies of the applicant for its accounting and auditing practices, including procedures used to monitor compliance with independence requirements." *See* PCAOB, Form 1, available at https://pcaobus.org/about/rules-rulemaking/rules/form_1. In addition, the Board stated that it is considering the feedback received from commenters regarding the contents of Form 1 with respect to quality control standards and that it would determine in the future whether any changes to its registration processes, including the content of Form 1, are necessary. *See* Notice of Filing of Proposed Rules, *supra* note 3, at 105.

reasons, it understood that some firms may pursue engagements for issuers and broker-dealers months, or even years, before they are awarded and commence such work. Therefore, it may not be necessary in all circumstances for a firm to have a QC system that fully complies with QC 1000 before it pursues an engagement that it might not be awarded or that it might not commence for a significant period of time.[113] We agree with the Board's reasoning with respect to the issue raised by this commenter and further emphasize that each firm performing engagements is fully subject to the requirement to design, implement and operate a QC 1000-compliant system which should provide the firm with reasonable assurance that its engagements are conducted in accordance with applicable professional and legal requirements.

9. *Prospective Savings/Lost Oversight*

One commenter raised concerns regarding the quantified estimates in the Adopting Release, stating that the PCAOB failed to provide estimates for Amendment-specific avoidable costs, for investor-quality losses, or for any fee reduction benefits to investors. The commenter then stated that the SEC "should weigh prospective savings against lost oversight before approving those provisions."[114] As noted by the PCAOB, limited data and information are available to reliably quantify certain costs and benefits.[115] We are unaware of any data that would allow us to estimate the cost savings that could be attributed specifically to the Amendments. While the PCAOB was able to

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[113] *See* Notice of Filing of Proposed Rules, *supra* note 3, at 18-19.

[114] *See* letter from CFA.

[115] *See* Notice of Filing of Proposed Rules, *supra* note 3, at 112-13, 142.

provide estimates for the total costs of implementing QC 1000,[116] these costs do not represent the specific costs that could be avoided as a result of the Amendments because the Amendment-specific avoidable costs would represent only a subset of the total costs of implementing QC 1000. Further, we are unaware of any data that would allow us to quantify investor-quality losses attributable to the Amendments or for demonstrating whether cost savings to the audit firms would flow through to lower audit fees. Thus, the Commission has considered the costs and benefits of the Amendments qualitatively in evaluating the Amendments, including the concerns raised by the commenter discussed above.

The commenter also stated that the PCAOB failed to segment the analyses by audit firms, by issuers (e.g., by EGC status or market-cap cohorts), and by audit engagements (e.g., small issuer audits by small firms). However, we note that the PCAOB provides a segmented discussion of the impacts on various firms and issuers. For each Amendment, the PCAOB identifies which firms would be impacted by the Amendment and discusses how those firms could be impacted differently based on certain characteristics such as whether firms have already implemented ISQM 1 or SQMS 1.[117] Further, the PCAOB discusses the differential impacts for firms of different sizes, including the size of the firms' issuers,[118] as well as a separate EGC analysis.[119]

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116 *Id.* at 112-13.

117 *Id.* at 116-71.

118 *Id.* at 171-75.

119 *Id.* at 183-87.

Most of the quantified estimates are not segmented across groups, but we are unaware of data that would allow for such segmentation.

As described above, we have considered the information contained in the Notice of Filing of Proposed Rules as well as the comments we have received. Having reviewed the information in the public file before us, we find that the Amendments are consistent with the requirements of Title I of SOX and the rules and regulations thereunder and are necessary or appropriate in the public interest or for the protection of investors. In particular, we believe the Amendments as a whole will further the Board's statutory mandate under SOX while reducing compliance costs and maintaining the investor protection benefits of QC 1000. The amended standard will continue to lead registered public accounting firms to improve their quality control systems, thereby improving audit quality and protecting investors.

## IV. Effect on Emerging Growth Companies

In the Notice of Filing of Proposed Rules, the Board recommended that we determine that the Amendments apply to the audits of EGCs.[120] Section 103(a)(3)(C) of SOX requires that any rules of the Board requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer (auditor discussion and analysis) shall not apply to an audit of an EGC.[121] The Amendments do not fall into these categories.

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[120] *Id.* at 187.

[121] 15 U.S.C. 7213(a)(3)(C).

Section 103(a)(3)(C) further provides that "[a]ny additional rules" adopted by the PCAOB after April 5, 2012 do not apply to audits of EGCs "unless the Commission determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation."[122] To the extent that section 103(a)(3)(C) applies, we have determined that the application of the Amendments to audits of EGCs is necessary or appropriate in the public interest for the reasons stated below.

When the Commission approved QC 1000 and related amendments in 2024, it determined that QC 1000 should apply to the audits of EGCs, pointing to benefits for EGCs such as enhanced audit and financial reporting quality.[123] The Commission acknowledged that QC 1000 could impose costs on EGCs, such as higher audit-related fees and costs incurred to allocate more resources to internal control systems or to respond to additional requests for evidence from audit firms.[124] As explained above, the Amendments make targeted changes to certain QC 1000 requirements that the Board determined were unclear in their application, might impose higher costs than initially anticipated in relation to the potential benefits, or might be unnecessarily prescriptive. The Board stated that the Amendments are intended to preserve QC 1000's core investor-

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122 *Id.*

123 *See* 2024 Approval Order, *supra* note 8, at 81-82.

124 *Id.* at 82.

protection objective while reducing unnecessary complexity, duplication, and implementation costs.[125]

Consistent with the Commission's 2024 determination, we believe that QC 1000 should not distinguish between the audits of EGCs and the audits of all other public companies in applying these Amendments given that they preserve the investor-protection benefits that the Commission determined to extend to EGCs when it approved QC 1000. We note that the Amendments may reduce implementation costs, which could favorably impact EGCs. More specifically, we agree with the Board's assessment and believe that applying the Amendments to the audits of EGCs is necessary or appropriate in the public interest, after considering the protection of investors and whether the Amendments will promote efficiency, competition, and capital formation.

The PCAOB provided information, including data and analysis of EGCs, that sets forth its views as to why it believes the Amendments should apply to the audits of EGCs.[126] In addition, the Board sought public input on the application of the Amendments to the audits of EGCs. Commenters generally did not provide views on whether the Amendments should apply to the audits of EGCs.[127]

PCAOB staff analysis identified 2,379 EGCs[128] and 245 PCAOB-registered firms that audited EGCs, including 203 firms that performed audits for both EGC and non-

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125 *See* Notice of Filing of Proposed Rules, *supra* note 3, at 88.

126 *Id.* at 184.

127 *Id.* at 187.

128 The PCAOB explained that the methodology for capturing the EGC population covers only companies that self-identified as an EGC by selecting the applicable check box on an Exchange Act annual report or registration statement (Forms 10-K, 20-F, 40-F, 10-12B, 10-12G), or on a Securities Act registration statement (Forms F-1, F-4, S-1, S-4, S-11) filed with the SEC during the 18-month period ending November 15, 2024 (the measurement period). In instances where a company had more than one such

EGC issuers. Approximately 97% of EGCs were audited by these 203 firms. None of these firms were design-only firms, but design-only firms provided at least 5% of total audit hours on nine EGC engagements. Sixteen of these firms withdrew from registration since November 15, 2024, but none of these firms referenced QC 1000 as a reason for withdrawal. Fourteen of these firms issued audit reports with respect to more than 100 issuers, and 42% of EGCs were audited by these 14 firms.[129]

The PCAOB stated that the Amendments would likely decrease costs incurred by firms to design, implement, and operate their QC systems, and firms could pass part of these cost savings down to their clients, including EGCs, in the form of lower audit fees. The PCAOB noted that EGCs are disproportionately audited by smaller firms; however, because it is unclear whether the Amendments would disproportionately impact smaller firms, it is also unclear whether EGCs would be disproportionately impacted by cost savings passthrough.[130]

According to the PCAOB, reduced audit fees could increase capital formation by decreasing the overall regulatory burdens of being a public company and 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.

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filing during the measurement period, the most recent annual report was selected. If no annual report was filed during the measurement period, the most recent registration statement was selected. Staff removed companies whose annual reports or registration statements did not include an audit report signed by a registered firm in the measurement period (e.g., companies whose filings included unaudited financial statements or audit reports signed more than 18 months before the measurement date). Of the 2,379 EGCs the Board identified, 1,820 (1,721) filed an annual report during the 18-month (12-month) period ending November 15, 2025. *Id.* at 183 n. 534.

[129] *Id.* at 184.

[130] *Id.* at 185.

The PCAOB stated 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, it believed any impacts on competition in EGC product markets would likely be modest because audit fees reflect only 0.6% of exchange-listed EGCs' revenues.[131]

The PCAOB acknowledged that any reduction in audit quality arising from the Amendments could reduce financial reporting quality, which could result in less efficient capital allocation, higher cost of capital, and less capital formation. The PCAOB stated that this effect could be particularly pronounced for EGCs because they tend to be smaller and have a shorter SEC financial reporting history than the broader population of public companies. The PCAOB also explained that it believed EGCs are likely to exhibit greater information asymmetry between management and investors and hence the importance of the external audit to investors may be more pronounced. However, the PCAOB concluded that the Amendments would have minimal impact on audit quality and, therefore, any impact on EGCs' financial reporting quality should also be minimal.[132]

The PCAOB explained that 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 different requirements within their methodologies or policies and procedures with respect to audits of EGCs and non-EGCs, which would create the potential for confusion and may not be practical in the context of these Amendments.

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131 *Id.* at 186.

132 *Id.* at 184-85.

Some of the Amendments are necessarily firm-wide and cannot easily be differentiated for different types of audits (e.g., rescinding the EQCF requirement and permitting the selection of the evaluation date), and even where differentiation is possible, maintaining two separate QC components for EGC and non-EGC audits may add to cost or confusion.[133]

We agree with the Board's analysis and further emphasize the benefits discussed by the PCAOB, including the possibility that firms will pass part of their cost savings on to EGCs in the form of lower audit fees, which could increase capital formation by decreasing the overall regulatory burdens of being a public company. Reduced audit fees could also lessen a competitive disadvantage for EGCs in their respective product markets to the extent they compete with companies that are not audited by PCAOB-registered firms, although we acknowledge that any impacts on competition would likely be modest given that audit fees reflect a small percentage of exchange-listed EGCs' revenues. We believe that any detriment to audit quality or financial reporting quality of EGCs would be minimal because we do not expect the Amendments to have a significant impact on audit quality. As noted above, we agree that the Amendments maintain QC 1000's investor-protection benefits, while making targeted changes to a small number of QC 1000's requirements to reduce unnecessary complexity, duplication, and implementation costs. Furthermore, we believe that applying the Amendments to the audits of EGCs would be efficient because it would mean that the 203 registered firms that audit both EGCs and non-EGCs would not have to implement different requirements

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[133] *Id.* at 186-87.

for these two categories of issuers which, in practice, would not be possible for the Amendments with firm-wide impacts.

Accordingly, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation, we believe there is a sufficient basis to determine that applying the Amendments to the audits of EGCs is necessary or appropriate in the public interest.

## V. Conclusion

We have reviewed and considered the Amendments, the information submitted therewith by the PCAOB, the ten comment letters we received, and the recommendation of the Commission's staff. We conclude that the determinations made by the PCAOB as described in the Notice of Filing of Proposed Rules are reasonable. Generally, the Amendments make targeted changes to QC 1000 to address implementation challenges identified by firms and to better align certain provisions of QC 1000 with other quality management standards with which most firms are already complying. As discussed in greater detail above, we believe that the Amendments could reduce unnecessary costs and enhance efficiency while not compromising QC 1000's goal of driving continuous improvements in firms' quality control systems and maintaining the standard's investor protection benefits.

Therefore, in connection with the PCAOB's filing and our review,

A. We find that the Amendments are consistent with the requirements of Title I of SOX and the rules and regulations thereunder and are necessary or appropriate in the public interest or for the protection of investors; and

B. Separately, we find that the application of the Amendments to the audits of EGCs is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation.

IT IS THEREFORE ORDERED, pursuant to section 107 of SOX and section 19(b)(2) of the Exchange Act, that the Amendments (File No. PCAOB-2026-01) be and hereby are approved.

By the Commission.

**Vanessa A. Countryman,**

*Secretary.*