June 7, 2024
By email: comments@pcaobus.org

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

Re: Proposing Release: Firm and Engagement Metrics; PCAOB Rulemaking Docket Matter No. 041

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of US public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by US public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, US public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of US public company auditors and audits to dynamic market conditions. This letter represents the observations of the CAQ based upon feedback and discussions with certain of our member firms, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ appreciates the opportunity to share our views and provide input on the Public Company Accounting Oversight Board's (PCAOB or the Board) Proposing Release on Firm and Engagement Metrics (referenced herein as the Proposing Release or the Proposal). The CAQ also appreciates the Board's efforts to explore ways that additional information could be provided to stakeholders related to the audit firm and audit engagement.

While we do not support the Proposal in its current form (particularly the public disclosure of engagement-level metrics) due to the concerns raised throughout this letter, we have taken this opportunity to provide feedback on alternatives that we could support subject to further outreach and engagement between the PCAOB and relevant stakeholders. We have structured our letter as follows:

1. Support for an alternative approach to disclosure of certain firm-level metrics that is scalable;
2. Support for an alternative approach that focuses on discussion related to certain engagement-level metrics with the audit committee;
3. Overall concerns related to the PCAOB's Proposal, including:
    a. Certain of the proposed metrics will inevitably be misinterpreted, and auditors preparing written narratives that attempt to guess and address a wide range of questions will add significant costs that will not meaningfully improve audit quality.

   b. The economic analysis does not provide a sufficient basis for approval of the Securities and Exchange Commission (SEC), and we are concerned the costs to comply with the Proposal will far exceed the benefits.
   c. The Proposal is not sufficiently scalable for smaller firms.
   d. Requiring public disclosure of certain proposed metrics could have competition-lessening effects.
   e. The PCAOB's statutory authority to require aspects of the reporting of the proposed metrics is not clear.
   f. Reporting of engagement-level metrics could be in tension with client confidentiality obligations.
4. Other matters, including:
   a. The importance of applying a materiality threshold to reporting requirements;
   b. The need for further outreach and exploration, including pilot testing, and the impact on the effective date; and
   c. Issues related to inclusion of metrics in the auditor's report.

1. Support for an alternative approach to disclosure of certain firm-level metrics that is scalable

As the Board notes in its Proposal, some firms have voluntarily disclosed certain firm-level metrics in audit quality reports or transparency reports for many years now. We are supportive of mandating an approach to disclosure of certain firm-level metrics that is scalable; however, we have significant concerns regarding certain of the proposed firm-level metrics, such as Industry Experience and Quality Performance Ratings and Compensation.

We have provided specific feedback on each proposed firm-level metric in the Appendix. This feedback includes ways in which the metric, as proposed, may provide limited benefits and have unintended consequences depending on its use. To the extent possible, we have suggested ways in which the metric could be improved. As noted in the CAQ's comment letter to the PCAOB dated May 22, 2024, the 60-day comment period does not provide us sufficient time to provide comprehensive feedback.[1] As a result, this feedback on specific metrics is preliminary at best. Firms do not likely know all the ways in which a proposed metric will be inoperable or challenging to implement until the implementation work begins. Further, due to an insufficient comment period, our feedback does not consider the impact of other standard-setting activities on this Proposal or the impact to a firm's global network. For these reasons, as we describe later, additional outreach and pilot testing are warranted.

2. Support for an alternative approach that focuses on discussion related to certain engagement-level metrics with the audit committee

The CAQ has conducted significant work on the topic of this Proposal over the last decade. Based on the results of that prior and ongoing work, we have significant concerns regarding the public reporting of engagement-level metrics. Audit committees have the statutory responsibility to oversee the auditor. Therefore, we believe it is appropriate for any discussion of certain tailored engagement-level metrics to

[1] See https://www.thecaq.org/comment-letter-pcaob-rulemaking-docket-matter-no-041.

occur between the audit committee and the auditor.[2] This oversight, in concert with the Board's oversight of audit firms, serves to protect investors. The Proposal does not sufficiently explain how the public reporting of a static set of engagement-level metrics would better serve to protect investors, or enhance audit quality, other than potentially enhancing communications between the audit committee and the auditor with respect to measures of audit performance. Without a sufficient understanding of how – or if – investors would use the information presented in the proposed metrics (and taking into account the risk of inappropriate use), it does not seem appropriate to suggest that investors use such information to make investment and proxy voting decisions.

Every company is unique, and, accordingly, each audit is also unique. This is consistent with the risk-based approach, as required under PCAOB auditing standards, used to design and perform each audit. Therefore, the audit committee is most capable of determining which engagement-level metrics and information they want to evaluate the quality of the external audit and to assess how those metrics and that information may be impacted as circumstances change year-over-year. The audit committee is also able to adjust the timing of communications related to audit performance depending on the issuer's complexity and matters that may arise during the audit cycle.

For these reasons and the additional considerations set forth below, we do not support the public reporting of engagement-level metrics. It would be more appropriate for the auditor to discuss with the audit committee the qualitative and quantitative information requested by the audit committee to assess the quality of the audit. This would achieve the benefits noted below and mitigate the risks of inappropriate use.

With the insight that may be gained through its inspection program related to the qualitative and quantitative information discussed between the auditor and audit committee, the PCAOB would then have the opportunity to share its experience with the SEC to inform potential guidance with respect to audit committee disclosures. For example, in their audit committee reports, audit committees could enhance disclosure of their process for overseeing the auditor, including the extent to which engagement-level metrics may have been considered in such oversight.[3] This more holistic consideration of ways to promote increased transparency about metrics could address the concerns we have with the Proposal.

Our views are informed by extensive research we have performed on this topic.[4] The benefits of discussion with the audit committee include:

- Discussion of performance metrics can be tailored by the audit committee – the body responsible for overseeing the independent audit – to the specific needs of the audit committee and that audit.

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[2] Indeed, we believe these conversations are occurring currently based on engagement the CAQ has with audit committee members and our members. We encourage the Board to engage in similar outreach as part of its rulemaking process.

[3] In partnership with Ideagen Audit Analytics, we have analyzed audit committee disclosure on key areas of oversight, including oversight of the external auditor, and continue to advocate for enhanced disclosure to aid investors in understanding the work performed by the audit committee to oversee the external auditor. See our *2023 Audit Committee Transparency Barometer* at https://www.thecaq.org/2023-Barometer.

[4] *CAQ Approach to Audit Quality Indicators* (2014), and *Audit Quality Indicators, The Journey and Path Ahead* (2016).

- Promotion of an active discussion on matters relevant to the execution of the specific audit could increase the audit committee's understanding of factors that may affect the quality of that specific audit. In addition, a robust dialogue can provide additional necessary context to understand the metrics, such as year-over-year changes, as well as provide further perspective on matters relevant to the execution of that specific audit.

- Given their governance, authority and knowledge of the particular circumstances of the audit engagement and engagement team, providing audit committees with the additional tailored information will enable more informed decision-making about reappointing the auditor or appointing a new auditor.

- Assistance to audit committees in their assessment of the more qualitative aspects of the audit, such as the engagement team having an appropriate mindset to bring forth professional skepticism and auditor judgment, is best achieved through dialogue and cannot be adequately captured in a quantitative performance metric.

- An iterative process over time that allows for continuous assessment and refinement best supports the ability to meet the changing information needs of audit committees and, perhaps most importantly, the quality of each individual audit.

3. Overall concerns related to the PCAOB's Proposal

As a result of our extensive research and outreach, spanning more than a decade, we have significant concerns related to the proposed mandated approach for engagement-level metrics and specific firm-level metrics we do not support, as discussed below:

a. Certain performance metrics will inevitably be misinterpreted.

To the extent these metrics are in fact utilized and/or reviewed by the majority of investors and other stakeholders, certain of the performance metrics will inevitably be misinterpreted, and auditors preparing written narratives that attempt to guess and address the range of questions will add significant costs that will not meaningfully improve quality and have not been sufficiently considered in the PCAOB's economic analysis. Understanding engagement-level metrics requires a two-way dialogue between auditors and audit committees throughout the course of the audit, such that audit committees understand, on a timely basis, how the auditor has responded to any potential risks to audit quality.

Companies are unique, and, consequently, audits are also unique. Audit execution is based on a wide variety of factors including company personnel and culture, nature and extent of operations, geographic footprint, risks to the company's business strategies, complexity of transactions, IT systems, etc. Therefore, it is misleading to benchmark performance metrics without appropriate context and ability for dialogue. Without context and dialogue, we do not believe this information will be decision-useful to investors in making investment decisions related to public companies.

Metrics are important to contextualize. The proposed public form of reporting that will be downloadable into a database would not be in a format that provides adequate context (even with

permitted narrative disclosure). We believe that certain firm-level metrics and all engagement-level metrics would not be well suited to public disclosure. See our Appendix for more details.

The PCAOB cites several other jurisdictions in its release, that "have moved forward with mandatory or voluntary initiatives related to the monitoring and disclosure of metrics," however, it also notes that "the primary users of the metrics from these initiatives were audit committees, oversight bodies, and professional organizations."[5] It is our understanding that none of the jurisdictions identified in the report currently require public disclosure of engagement-level metrics. Further, there does not appear to be a more detailed analysis of the status of these initiatives, including how the calculation or presentation of the metrics under those initiatives compares to that proposed by the PCAOB. We believe an understanding of these initiatives in greater detail would inform the PCAOB of likely challenges with the public reporting of metrics and potential alternatives that are less costly and present less risk of unintended use.

While the data underlying the proposed metrics is likely to have value in academic research, without sufficient context it will not achieve its full potential. Due to the nature and number of inputs that can impact the quality of an audit, no single metric should be viewed as having a causal relationship with audit quality. This is consistent with the Board's change in terminology away from "audit quality indicators" to "firm and engagement performance metrics." The Proposal states, "while we believe the proposed metrics would help reduce opacity in the audit market and reduce frictions in the information market, we note that the proposed metrics would not be direct measures of audit quality. Audit quality is an abstract concept, and there is no single comprehensive measure of audit quality."[6]

b. *The economic analysis does not provide a sufficient basis for SEC approval, and we are concerned that the cost to comply with the Proposal will far exceed the benefits.*

As with other PCAOB rules and standards, any final Board action adopting the Proposal must be approved by the SEC before it takes effect.[7] To grant that approval, the SEC must find "that the rule is consistent with the requirements of this Act and the securities laws, or is necessary or appropriate in the public interest or for the protection of investors."[8] The SEC's ability to make that finding will require a more rigorous economic analysis than that put forward by the Board in the Proposal. Instances where the Board's economic analysis may potentially be insufficient include the following:

- The Board acknowledges that much of its economic analysis of the Proposal is qualitative rather than quantitative in light of the "limited data to quantitatively estimate the economic impacts of the proposal."[9] To the extent that quantitative data is lacking, however, that is a reason for the Board to conduct pilot studies or additional engagement with registered firms, issuers, and other stakeholders so that it can adequately evaluate costs and benefits before adopting any Proposal. This could identify whether the individuals suggesting a lack of quantitative data are aware of or

[5] Proposal, pages 19-20.
[6] Proposal, page 135.
[7] *See* 15 U.S.C. § 7217(b)(2).
[8] 15 U.S.C. § 7217(b)(3).
[9] Proposal, page 123.

using the information that audit firms have already made public for years and, if so, what challenges they have encountered in using that information.

- Our research has found that most investors, even some of those who have been the impetus for the Proposal, are either unfamiliar with or unaware of audit quality reports published by public accounting firms.[10] Therefore, it is not clear that investors will utilize the proposed information. It is also unclear whether, in the years following its concept release on audit quality indicators, the PCAOB has made an effort to obtain this understanding. However, the qualitative and sweeping nature of many of the assertions about the benefits of the proposed metrics (e.g., the statement that more data will increase "investors' ability to efficiently and effectively make decisions about ratifying the appointment of their auditors and allocating capital")[11] and the assertions that are merely restatements of the metric itself (e.g., disclosure of audit hour allocation will "help investors and audit committees to review…whether the auditor is appropriately allocating hours prior to the issuer's year end")[12] indicate that the Board lacks a more concrete basis for the Proposal.

- The Board's economic analysis maintains that the Proposal provides two types of benefits. First, the Board asserts that the reporting of the identified metrics "would aid investor and audit committee decision making."[13] The Board's discussion makes clear, however, that the Proposal is only valuable to the extent that the disclosed metrics actually shed light on audit quality.[14] As discussed elsewhere in this letter, there is substantial reason to believe that the audit quality signals emitted by the proposed metrics might not be clear; therefore, this purported benefit appears illusory and unsupported. Second, the Board states that the Proposal would "further aid investor and audit committee decision making" by rendering the metrics that are reported standardized and comparable.[15] Yet, as discussed herein, the failure of the Proposal to address in the calculation or presentation of the metrics the unique characteristics of individual companies and audits, and the natural variation in the way that registered firms operate, will likely mean that comfort that the metrics will be reported comparably cannot be achieved.

In light of these and other shortcomings in the PCAOB's economic analysis to date, the economic ramifications of the Proposal appear not to have been adequately considered, and the record established by the Board to support the Proposal appears insufficient.

While the benefits appear uncertain, what is certain are the high costs that will be incurred to implement this rule. Our outreach with our member firms has informed us that processes and systems will need to be put into place or updated to track, test, and report certain data. Even once those processes and systems are implemented, the time and effort that it will likely take each firm to refine the calculation of data to comply with the proposed requirements will also be significant.

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[10] See https://thecaq.wpenginepowered.com/wp-content/uploads/2023/11/caq_perspectives-on-corporate-reporting-the-audit-and-regulatory-environment_2023-11.pdf

[11] Proposal, page 137.

[12] Proposal, page 155.

[13] Proposal, page 127.

[14] Proposal, pages 123-27 (discussing lack of visibility into audit quality).

[15] Proposal, page 127.

We are not certain that investors want audit firms to incur unnecessary costs for the metrics proposed here, as those costs will ultimately be borne by issuers and investors.[16] A more complete economic analysis would reveal that the costs exceed the potential benefits of the Proposal. Additional analysis, coupled with outreach to and engagement with audit firms and audit committees, would enable an evaluation of valid, cost-effective alternatives that present a significantly lower risk of unintended use and consequences (such as individuals without sufficient context reaching inappropriate conclusions regarding audit quality).

c. *The Proposal is not sufficiently scalable for smaller firms.*

We are especially concerned about the potential burden for smaller firms. Certain smaller public accounting firms may leave the public company auditing practice due to the high cost and burden of compliance with this rule, particularly in combination with the burdens imposed by other recently issued and proposed rules.[17] Moreover, the Board has not indicated in the Proposal what, if any, engagement has been done to understand if investors and/or audit committee members of smaller public companies are actually seeking this information. This would have a negative effect for smaller public companies looking for a smaller firm auditor.

We strongly encourage modifications to scope to improve the scalability of the Proposal. We provide more detail in the Appendix for your consideration.

d. *Requiring public disclosure of certain proposed metrics could have competition-lessening effects.*

Certain information that underlies the firm- and engagement-level metrics that the Board proposes to be reported in many cases would currently be characterized as confidential business information. For example, engagement-level reporting related to the number of hours worked on an engagement per week, engagement team tenure and experience by industry, and percentage of hours by specialist and by shared service center all reflect information that would be viewed by a registered firm as confidential internal information. As a result, the proposed disclosure of this information presents potential concerns under domestic and international competition laws. Although the exchange of such information among competitors is not a *per se* violation of the Sherman Act,[18] courts have ruled that sharing confidential information among competitors may have anticompetitive effects and constitute circumstantial evidence of an illegal conspiracy.[19] In *United States v. Container Corporation*

[16] For example, according to a recent Wall Street Journal article, The Colorado Public Employees' Retirement Association, a pension fund, suggested the regulator explore ways to reduce costs for smaller audit firms, said Amy McGarrity, chief investment and operating officer at Colorado PERA and member of the PCAOB's investor advisory group. "We don't want transparency at any cost," she said. "We want relevant regulation that's going to improve outcomes."

[17] "Determinants of Small Audit Firm Exits from the PCAOB-Regulated Audit Market" by Michael Ettredge, Juan Mao, and Mary Stone. Working Paper (2022).

[18] *See United States v. Citizens & So. Nat'l Bank*, 422 U.S. 86, 113 (1975) ("But the dissemination of price information is not itself a per se violation of the Sherman Act.").

[19] *See, e.g.*, *United States v. Container Corp. of Am.*, 393 U.S. 333, 336–37 (1969) (holding that the Government had stated a claim where it alleged that "the exchange of price information" among companies comprising 90% of

of America, for example, the Supreme Court observed that confidential information exchanges are especially problematic in industries with only a few key market players providing a similar product, where the exchange of pricing information may lead to reduced price competition.[20] Courts have also noted that the more current and specific the information sharing, the more problematic it may be.[21]

In recent years, the U.S. Department of Justice Antitrust Division (Antitrust Division) and the Federal Trade Commission (FTC) have increasingly scrutinized information-sharing practices. In 2023, the agencies withdrew prior guidance that had authorized information exchanges among competitors in the healthcare field (and whose safe harbor provisions had been understood to apply across most other industries),[22] and the Antitrust Division has brought more enforcement actions targeting information exchanges. For example, in July 2022, the Antitrust Division filed a civil antitrust lawsuit against three of the nation's largest poultry processors for artificially suppressing workers' compensation by, among other things, "exchanging competitively sensitive information about plant worker compensation" through the services of a co-conspirator consulting service.[23] Similarly, on September 28, 2023, the Antitrust Division filed a civil lawsuit against an agricultural benchmarking company, alleging that the company permitted meat processors "to exchange competitively sensitive information through its exclusive subscriptions and consulting business."[24]

Against this backdrop, the Proposal seeks the public release of sensitive competitive information (such as granular detail about engagement staffing) in a non-anonymized form. Although the Board identifies purported procompetitive reasons to justify this reporting,[25] and a firm's disclosure of the information itself would likely be immunized by the Proposal's mandate,[26] we are skeptical of the Board's assertion about the effects of the Proposal on competition. The circulation of what otherwise would be proprietary, competitively sensitive information—especially information that has never previously been public, such as workload and staffing allocations—could lead to concerns about other firms using such information in a competition-lessening manner.[27] Particularly given the backdrop summarized above, we encourage the Board to carefully consider whether the relevant antitrust

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the market "had an anticompetitive effect in the industry, chilling the vigor of price competition"); *Flextronics Int'l USA, Inc. v. Panasonic Holdings Corp.*, No. 22-15231, 2023 WL 4677017, at *3 (9th Cir. July 21, 2023) ("the exchange of information may be considered a plus factor that supports a finding of conspiracy").

[20] *Container Corp.*, 393 U.S. at 337 ("[T]he corrugated container industry is dominated by relatively few sellers. The product is fungible and the competition for sales is price. The demand is inelastic . . .Stabilizing prices as well as raising them is within the ban of [Section 1] of the Sherman Act.").

[21] *See Todd v. Exxon Corp.*, 275 F.3d 191, 211–13 (2d Cir. 2001).

[22] U.S. DEP'T OF JUSTICE, Justice Department Withdraws Outdated Enforcement Policy Statements (Feb. 3, 2023), https://www.justice.gov/opa/pr/justice-department-withdraws-outdated-enforcement-policy-statements; FED. TRADE COMM'N, Federal Trade Commission Withdraws Healthcare Enforcement Policy Statements (July 14, 2023).https://www.ftc.gov/system/files/ftc_gov/pdf/P859910FTCWithdrawsHealthcareEnforceStmts.pdf.

[23] Complaint, *United States v. Cargill Meat Solutions Corp.*, No. 22-cv-1821 (D. Md. July 25, 2022), Dkt. No. 1 ¶ 75.

[24] Complaint, *United States v. Agri Stats, Inc.*, No. 0:23-cv-03009 (Sept. 28, 2023), Dkt. No. 1, at 1.

[25] *Id.* at 4–6, 23–24, 28–29.

[26] *See, e.g.*, *United States v. United States Sugar Corp.*, 73 F.4th 197, 208 (3d Cir. 2023) ("A finding of implied repeal can be justified only by a convincing showing of clear repugnancy between the antitrust laws and an alternative regulatory system" (citations omitted)).

[27] *See, e.g., In re Pork Antitrust Litig.*, 495 F. Supp. 3d 753, 766–67 (D. Minn. 2020) (denying motion to dismiss complaint alleging, among other things, that defendants used benchmarking to monitor adherence to price-fixing conspiracy).

regulators would be concerned about the potential competition-lessening effects of the Proposal. At a minimum, the Board should provide its analysis of the application of the anti-trust laws and why these proposals would sustain scrutiny as it moves forward in the rulemaking process.

In addition, certain non-U.S. firms may need to determine whether compliance with the proposed rules presents any issues under their local legal regimes, which in some cases have competition laws that are more rigid in certain respects than U.S. law.[28] Due to the limited time to perform outreach, we have not been able to conclusively agree with the Proposal that there are not implications to non-US laws. Further, the Proposal does not address how to deal with the impact of future changes to laws and regulations.

e. The PCAOB's statutory authority to require the reporting of the proposed metrics is not clear.

We encourage the Board to further assess the extent to which it has the statutory authority to issue certain aspects of the Proposal. In the Proposal, the Board appears to identify Section 102(d) of the Sarbanes-Oxley Act of 2002, as amended (SOX), which requires registered audit firms "to provide to the Board such additional information as the Board or the Commission may specify, in accordance with [subsection (b)(2)],"[29] as the principal basis on which it has proceeded.[30] Subsection (b)(2), in turn, states that firms applying for registration must submit to the Board certain identified information, as well as "such other information as the rules of the Board or the Commission shall specify as necessary or appropriate in the public interest or for the protection of investors."[31] The Board appears to rely on this "such other information" clause for its proposed rules here.[32]

That residual clause, while arguably granting the Board the power to request *some* information beyond the categories explicitly enumerated in Section 102(b)(2), also imposes constraints on that grant. As the Supreme Court has held, "the words 'public interest' in a regulatory statute [are] not a broad license to promote the general public welfare," but rather "take [their] meaning from the purposes of the regulatory legislation." [33] Similarly, "statutory reference" to the adoption of regulations that are "necessary or appropriate" does not give an agency "authority to act, as it [sees]

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[28] For example, Brazil's Administrative Council for Economic Defense advises businesses "[n]ever [to] share confidential or competitively sensitive information or data related to the company's strategies with competitors"—taking a more absolute position than U.S. authorities. *See* Administrative Council for Economic Defense, Guidelines for Competition Compliance Programs, at 31 (Jan. 2016), https://cdn.cade.gov.br/Portal/centrais-de-conteudo/publicacoes/guias-do-cade/compliance-guidelines-final-version.pdf.

[29] 15 U.S.C. § 7212(d).

[30] Proposal, page 24 n.67.

[31] *Id.* § 7212(b)(2)(H).

[32] Proposal, page 24 n.67 (citing "such other information" clause of Section 102(b)(2)(H) as applicable to Section 102(d)).

[33] *NAACP v. FPC*, 425 U.S. 662, 669 (1976); *see also, e.g.*, *Bus. Roundtable v. SEC*, 905 F.2d 406, 413 (D.C. Cir. 1990) ("'public interest' is never an unbounded term . . . broad 'public interest' mandates must be limited to the purposes Congress had in mind when it enacted [the] legislation") (alteration in original) (internal quotations omitted).

fit, without any other statutory authority."[34] The Board's authority under Section 102(b)(2)(H), then, "must be read with 'some concept of the [Board's] relevant domain' in mind."[35] The words "such other information" have a similar effect under established precedent, which holds that "general words" that "follow specific words in a statutory enumeration" should be "construed to embrace only objects similar in nature to those objects enumerated by the preceding specific words."[36]

Additionally, the Supreme Court is currently considering a case, *Loper Bright Enterprises v. Raimondo*,[37] in which the D.C. Circuit held that an agency "may not rely on a 'necessary and appropriate' clause to claim implicitly delegated authority beyond its regulatory lane or inconsistent with statutory limitations or directives."[38] The Court's decision in *Loper Bright* may also operate to further constrain the Board's authority.

Applying these principles to Section 102(b)(2), the Board's authority to require the provision of "other" information under subsection (b)(2)(H) should be viewed as limited to information of the type enumerated in subsections (b)(2)(A) through (b)(2)(G), which includes the names of clients, annual fees, other financial information, quality control policies, the names of accountants, criminal or civil proceedings, and instances of accounting disagreements.[39] That list does not suggest that Congress contemplated the disclosure of the detailed information called for by the Proposal – such as the average number of hours worked per week by the engagement partner, especially with respect to a particular audit – or the disclosure of such personal information as the number of years an individual accountant has worked in a particular industry. These and other metrics related to workload, professional experience, audit resources, and other areas – both at the firm and the engagement level – demand a level of disclosure that bears little clear relationship to the items identified by Congress.

Finally, the other bases of Board authority cited in the Proposal – SOX Sections 101(a), 101(c)(5), and 103(a)[40] – also do not appear to provide an adequate basis to proceed. Section 101(a) grants no authority to the Board at all, and Section 101(c)(5) grants the authority only to "perform such other duties or functions as the Board (or the Commission, by rule or order) determines are necessary or appropriate to promote high professional standards among, and improve the quality of audit services offered by, registered public accounting firms and associated persons thereof, or otherwise to carry out this Act, in order to protect investors, or to further the public interest."[41] This provision does not grant the *Board* the authority to engage in rulemaking, and at any rate its "public interest" and

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[34] *N.Y. Stock Exch. LLC v. SEC*, 962 F.3d 541, 554-55 (D.C. Cir. 2020) (interpreting Exchange Act Section 23 granting to SEC "power to make such rules and regulations as may be necessary or appropriate to implement the provisions" of Exchange Act).

[35] *Chamber of Comm. v. SEC*, 412 F.3d 133, 139-40 (D.C. Cir. 2005).

[36] *Circuit City Stores, Inc. v. Adams*, 532 U.S. 105, 114-15 (2001) (internal quotations omitted); *see also, e.g.*, *Bus. Roundtable*, 905 F.2d at 413.

[37] No. 22-451 (S. Ct. argued Jan. 17, 2024).

[38] *Loper Bright Enters., Inc. v. Raimondo*, 45 F.4th 359, 368 (D.C. Cir. 2022); *see also, e.g.*, *N.Y. Stock Exch. LLC v. SEC*, 962 F.3d 541, 554-55 (D.C. Cir. 2020) (rejecting SEC's "view that the statutory reference to 'regulations as may be necessary or appropriate'" in 15 U.S.C. § 78w(a)(1) "gave it authority to act, as it saw fit, without any other statutory authority").

[39] *See* 15 U.S.C. § 7212(b)(2)(A)-(G).

[40] Proposal, page 24 n.67.

[41] *See* 15 U.S.C. § 7211(c)(5).

"necessary or appropriate" clauses place the same constraints on the Board mentioned above. Section 103(a) also does not appear to provide a sound basis for the proposed rules, given that it relates to the promulgation of professional practice standards, not reporting requirements.[42]

f. Reporting of engagement-level metrics could be in tension with client confidentiality obligations.

The Proposal also runs the risk of unmasking certain confidential client information—including regarding how and when audit hours were allocated, how critical accounting areas were audited, etc.—in a manner that could be contrary to auditors' confidentiality obligations to their clients. *See, e.g.*, AICPA Code of Professional Conduct 1.700.001 ("A member in public practice shall not disclose any confidential client information without the specific consent of the client"). This is another reason we support discussion of engagement-level metrics with the audit committee but not any public disclosure of engagement-level metrics.

4. Other matters

a. The importance of a materiality threshold

Currently, there is no de minimis threshold when it comes to compliance with certain PCAOB firm and engagement reporting requirements (e.g., Form AP). While it is important for firms to make investments in systems to comply with the Board's rules, inspection findings and enforcement cases based on minor errors will redirect firm resources that would otherwise enhance audit quality without a clear benefit. Combining this with a significant increase in the amount and detail of the proposed firm and engagement-level metrics will only significantly exacerbate these issues. The risk of enforcement for minor, unintentional errors in reporting may also play a role in public accounting firms' decision to cease auditing public companies.

We recommend the PCAOB establish a de minimis threshold for unintentional inaccuracy that applies to all firm reporting.

b. The need for further outreach and exploration, including pilot testing, and the impact on the effective date

We strongly recommend that the Board conduct additional outreach with audit firms, audit committees, and in particular a broad swath of investors (i.e., over and above the Board's Investor Advisory Group) as well as pilot test certain metrics through active discussions with audit committee members and a diverse group of investors before adopting a final standard. A pilot test would provide the necessary time for the Board to determine how they intend to protect the requested data in its own systems.[43]

We also recommend the Board coordinate with the SEC on potential enhancements to audit committee disclosures.

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[42] *See* 15 U.S.C. § 7213(a).

[43] Similar to the SEC's Consolidated Audit Trail (CAT), which has been subject to criticism with concerns raised related to data privacy, the Board has not detailed its plans to protect its data.

Upon final standard adoption, firms of all sizes will benefit from and require sufficient time to implement systems or system changes and accumulate and test data and calculations. This is especially true given the pace of change, including the recent Board adoption of PCAOB quality control standard, QC 1000, *A Firm's System of Quality Control*, and PCAOB auditing standard AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.[44] Similar to the implementation of the new Auditor's Reporting Model, an extended effective date would enable firms to perform internal dry runs to identify areas where additional guidance could support successful implementation. We recommend the extension of the effective date to a point at least three years after SEC approval with an additional year for smaller firms.

c. Issues related to inclusion of metrics in the auditor's report

While we do not think public disclosure of any engagement-level metrics is appropriate, we especially object to inclusion of firm-level and engagement-level metrics in the auditor's report. This inclusion would suggest that there is some importance to the information for purposes of assessing the quality of the auditor's report, yet the Board's own research and experience identified a lack of correlation between particular metrics and quality, providing contrary evidence that it is indicative of quality. Furthermore, it would be impractical to implement as of the date of the auditor's report, would distract auditors from much more important work during the completion of an audit (i.e., distract from the quality of each individual audit), and would not provide sufficient time for collection, calculation and quality control review.

*****

As we have previously stated, the CAQ remains concerned that the overall trend and cumulative effect of the PCAOB's recent standard setting/rulemaking, inspections, and enforcement activities is diminishing the attractiveness of the profession broadly – both to incoming talent and retaining talent in the public company audit space. Moreover, while the Board's standard-setting and rulemaking is purportedly being done in the name of investor protection, we have not seen an analysis of Board engagement with investors to justify certain of its detailed proposals or changes. We believe that, with certain modifications to the Proposal, the Board can achieve its objectives and provide a balanced and scalable approach.

The CAQ appreciates the opportunity to comment on the Proposing Release, we look forward to future engagement and we encourage the Board to proactively seek out engagement with auditors, audit committee members and investors on these topics. As the Board continues to gather feedback from other interested parties, we would be pleased to discuss our comments or answer questions from the Board regarding the views expressed in this letter. Please address questions to Vanessa Teitelbaum (vteitelbaum@thecaq.org) or Dennis McGowan (dmcgowan@thecaq.org).

[44] PCAOB Adopts New Quality Control Standard (May 13, 2024) and PCAOB Adopts New Standard on General Responsibilities of the Auditor (May 13, 2024)

Sincerely,

Vanessa Teitelbaum, CPA
Senior Director, Professional Practice
Center for Audit Quality

cc:

PCAOB
Erica Y. Williams, Chair
George R. Botic, Board member
Christina Ho, Board member
Kara M. Stein, Board member
Anthony C. Thompson, Board member
Barbara Vanich, Chief Auditor
Martin C. Schmalz, Chief Economist
James Cappoli, General Counsel

SEC
Paul Munter, Chief Accountant

APPENDIX

This appendix serves to provide feedback on certain questions and metrics in the Proposing Release, should the Board move forward in part or in full. As we state above, we do not support public disclosure of any engagement-level metrics and certain firm-level metrics. The feedback provided below should not be misconstrued as such. Further as noted above, given the short comment period, our feedback on specific metrics is preliminary at best. This feedback should only be considered following resolution of broader concerns expressed above.

Rounding and Use of Estimates

Q6. Is it appropriate to allow firms to use reasonable estimates when actual amounts are unavailable? Should there be any other restrictions on the use of estimates? If so, what are they?

Metrics relying on hour reporting breakdowns, such as by audit area, are likely to be estimates as the nature of audit procedures / discussions may cross areas. Additionally, some audit procedures are pervasive and have an indirect impact on specific areas.

Therefore, these measures will inherently be a best estimate of capturing time, and firms and engagements will need to have an ability to acknowledge the estimation. For this reason, as we note above, we recommend a de minimis threshold be established for firm reporting.

Optional Narrative Disclosure

Q7. Should firms be permitted to provide narrative disclosure to provide context to the reported metrics? If not, why not? If yes, should narrative disclosure be allowed for all metrics or only certain ones? If limited, which ones?

We do not support the public disclosure of engagement-level metrics, with or without narrative. However, to the extent that any metrics are publicly disclosed, a narrative will be necessary to provide important context - in particular for period-over-period variations and changes in key inputs. It is impractical to suggest that audit firms would be able to predict all potential questions from or context needed by such a wide range of users. Efforts spent trying to craft a narrative could result in additional unintended consequences, such as the disclosure of confidential information, and will not result in any meaningful enhancement of audit quality.

Narrative disclosures may likely require context around the limitations of use of the metrics and their related relationship to audit quality, similar to the language preceding critical audit matters in the auditors' report. Such disclosure may be lengthy and therefore, may not be able to provide necessary context within a specific character limit.

Q8. Should we place limits on the length or content of the narrative disclosure? If so, what should they be? Is a 500-character limit per metric appropriate? Should it be less or more? Should there be no limit?

As noted above, we do not support the public disclosure of engagement-level metrics. However, to the extent that any metric is publicly disclosed, there should be no character limit. Even without a character limit, the need for unlimited contextual information calls into question the comparability and consistency

of the information. It is unclear how the forms would be adapted by stakeholders to assess and interpret unlimited contextual information.

Key Terms and Concepts

Q9. Are the definitions for partners, managers, and staff clear and appropriate? If not, how should they be changed?

Firms have different staff structures and differing terms for differing roles. For this reason, we are concerned that metrics as proposed may not be comparable.

Further, there is a wide range of definitions proposed (e.g., engagement team and core engagement team; inclusion of certain personnel for certain metrics, but not others; varying threshold levels). This is another reason we view a discussion between the auditor and the audit committee as the best approach as each metric requires explanation.

Q17. Is it appropriate to include total audit hours for all issuer engagements in the firm-level metrics, as proposed? Or should the metric be limited to total audit hours for large accelerated filer and accelerated filer engagements? Why or why not?

The use of "total hours" at the firm level would mean reporting from other auditors in a group audit engagement. Therefore, it may be misleading to refer to these metrics as "firm" metrics when they are "firm plus other auditor" metrics. This would require a significant amount of narrative disclosure to provide the appropriate context to stakeholders. Firm-level metrics should be limited to data from the reporting firm only.

Thresholds for Required Reporting

Q64. For firm-level metrics, is the threshold for reporting appropriate? If not, what would be an appropriate threshold? For example, should we require a threshold for firms that audit companies of a certain size, market capitalization, or another method?

We recommend that any requirement of firm-level metrics be limited to firms who audit more than 100 issuers. This would improve the scalability of the Proposal and still account for the majority of U.S. public company market capitalization.

Reporting of Engagement-Level Metrics

Q72. Should we require communication of firm-level and/or engagement-level metrics to the audit committee? If so, which ones and why?

We support encouraging a dialogue between the auditor and the audit committee that is tailored to the audit and contextualizes quantitative measures. The audit committee is best positioned to determine which engagement-level metrics are appropriate for their oversight purposes. We anticipate the timing of

these communications could vary, depending on the issuer's complexity and the timing of the audit cycle. As noted above, we do not support the public disclosure of engagement-level metrics.

Inclusion of Metrics in the Audit Report

Q73. Would it be appropriate for us to require inclusion of some or all firm- and engagement-level metrics in the audit report in addition to PCAOB forms? On what basis should particular metrics be included or excluded?

We do not think public disclosure of any engagement-level metrics is appropriate. We especially object to inclusion of firm-level and engagement-level metrics in the auditor's report. This inclusion would suggest that there is some importance to the information for purposes of assessing the quality of the auditor's report, yet the Board's own research and experience identified a lack of correlation between particular metrics and quality, providing contrary evidence that it is indicative of quality. Furthermore, it would be impractical to implement as of the date of the auditor's report, would distract auditors from much more important work during the completion of an audit (i.e., distract from the quality of each individual audit), and would not provide sufficient time for collection, calculation and quality control review.

In addition, amendments to the auditor's report for corrections to metrics could create unnecessary burden for issuers and confusion for investors. The Board's economic analysis does not show that the costs of this means of reporting the data would be justified by any benefit.

Firm-level metrics would not likely align with timing of the audit report. Lastly, we are concerned that such data provided in the audit report would be information overload and unhelpful to users and would unnecessarily expose auditors (and, potentially, issuers) to possible incremental securities law liability as a result of unintentional errors in such data.

Effective Date

Q111. Would the effective dates described above provide challenges for auditors? If so, what are those challenges, and how should they be addressed?

Yes. Firms of all sizes will require sufficient time to implement systems or system changes, develop processes, drive behavioral changes, and accumulate and test data and calculations. This is especially true given the pace of change, including the recent Board adoption of the auditing standards related to Confirmations, QC 1000 and AS 1000. Similar to the implementation of the new Auditor's Reporting Model, an extended effective date would enable firms to perform internal dry runs. If the PCAOB were to finalize such prescriptive reporting, we recommend an effective date of at least three years after SEC approval with an additional year for smaller firms. Alternative, less prescriptive reporting to audit committees could be implemented more quickly and is a significantly better alternative to the PCAOB's Proposal.

Further, we encourage the Board to pilot test certain metrics through active discussions with audit committee members and a diverse group of investors before adopting a final standard.

Partner and Manager Involvement

Firm-level description: Total audit hours for partners and managers on the engagement team as a percentage of total audit hours for all issuer engagements for which the firm issued an audit report during the 12-month period ended September 30.

Engagement-level description: Total audit hours for partners and managers on the engagement team as a percentage of total audit hours.

Example firm-level reporting for Form FM:

Partner and Manager Involvement	Percentage of total audit hours for partners and managers for all issuer engagements	29%

Example engagement level reporting for Form AP:

Partner and Manager Involvement	Percentage of total audit hours for partners and managers	36%

Q19. Would it be helpful to separate the calculations for partner involvement and manager involvement? Why or why not?

We do not think it would be helpful to separate the calculations for partner involvement and manager involvement. While we appreciate the benefit of partner and manager involvement, aggregating the data and calculating this metric for all issuer audits will be very time consuming. The Board would benefit from further outreach with audit committees to better understand how this Proposal would benefit them beyond the information they currently receive. Pilot testing the gathering of this information would assist in understanding the costs and benefits of this proposed metric.

Workload

Firm-level description: Including time attributable to engagements, administrative duties, and all other matters:

i) Average weekly hours worked on a quarterly basis by engagement partners
ii) Average weekly hours worked on a quarterly basis by Other Partners, managers and staff

Engagement-level description: Including time attributable to engagements, administrative duties, and all other matters:

i) Average weekly hours worked during the engagement by the engagement partner on a quarterly basis
ii) Average weekly hours worked on a quarterly basis by Other Partners (excluding the engagement partner), managers and staff on the core engagement team

Example firm-level reporting for Form FM:

		Average Weekly hours worked	
Workload	Quarter ended	Engagement Partners	Partners (excluding engagement partners), Managers, and Staff
	Sep 30, 20X3	48	48
	June 30, 20X3	46	49
	March 31, 20X3	61	64
	December 31, 20X2	50	55

Example engagement-level reporting for Form AP:

		Average Weekly hours worked during the engagement	
Workload	Quarter ended	Engagement Partner	Partners (excluding engagement partners), Managers, and Staff
	Sep 30, 20X3	54	47
	June 30, 20X3	46	45
	March 31, 20X3	44	55
	December 31, 20X2	63	61

Q22. Are the proposed descriptions and calculations of the firm-level metrics and engagement-level metrics for the engagement partner workload and partner (excluding the engagement partner), manager, and staff workload clear and appropriate? If not, why not?

At a firm level, we support disclosure of average annual hours by level. All time incurred should be included, including paid time off (PTO). However, we note that the proposed metric may not provide comparable results as firms currently take different approaches to recording time, in particular nonchargeable time such as PTO. It would be administratively burdensome to track and disclose average weekly hours on a quarterly basis, and we question the value of this calculation. Further, this calculation would include individuals that support audits but that have significant other job responsibilities (including providing other services such as tax compliance). Including these individuals could skew information regarding workload of individuals whose primary job responsibility is the performance of audit work.

We are not supportive of this proposed requirement at an engagement-level other than consideration of a discussion with the audit committee.

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

Description: Percentage of issuer engagements that used specialists and shared service centers at the firm level, and hours provided by specialists and shared service centers at the engagement level.

Example firm-level reporting for Form FM:

Use of Auditor's Specialists	Percentage of issuer engagements that used specialists	**64%**
Use of Shared Service Centers	Percentage of issuer engagements that used shared service centers	**80%**

Example engagement-level reporting for Form AP:

Use of Auditor's Specialists	Percentage of total audit hours provided by specialists	**2%**
Use of Shared Service Centers	Percentage of total audit hours provided by shared service centers	**15%**

Q26. With respect to the firm-level metrics for the use of (i) auditor's specialists and (ii) shared service centers:

a. The metrics calculate the percentage of issuer engagements on which (i) auditor's specialists and (ii) shared service centers were used. Alternatively, should these metrics calculate the average percentage of usage of (i) auditor's specialists and (ii) shared service centers across all of the firm's engagements?

We do not think it is useful to require this firm-level metric. The metric does not give context as to the role of those specialists or shared service centers. For specialists, the metric does not provide an indication of the extent of the work performed. For these reasons, it is not clear how a user will utilize these metrics in evaluating audit quality. If included in the final standard, disclosure of the use of specialists and shared service centers should relate to a firm's issuer practice. We do not see the relevance or appropriateness of including metrics beyond a firm's issuer practice.

b. The metrics for use of auditor's specialists and shared service centers at the firm-level calculate the percentage of issuer engagements in which specialists or shared services centers, respectively, were used, no matter how minor their involvement may have been. Should the metric capture only engagements in which an auditor's specialist or shared services center

was used for a minimum number of engagement hours, such as 2% or 5%? If yes, what should the threshold be?

We believe there are a number of challenges with the proposed metric based on our preliminary assessment. The proposed metric makes no distinction between an engagement with one specialist hour compared with an engagement with 500 specialist hours. Therefore, for the firm-level metric, disclosing specialist hours as a percent of total public company audit hours may be a more meaningful metric.

Experience of Audit Personnel

Description: Average number of years worked at a public accounting firm (whether or not PCAOB-registered) by senior professionals across the firm and on the engagement.

Example firm-level reporting for Form FM:

Experience of Audit Personnel		Engagement Partners	Partners (excluding engagement partners) and Managers
	Average years of experience at a public accounting firm	**20**	**8**

Example engagement-level reporting for Form AP:

Experience of Audit Personnel	Years of experience at a public accounting firm for the Engagement Partner	Years of experience at a public accounting firm for the Engagement Quality Reviewer	Average years of experience for Partners (excluding the engagement partner), and Managers on the Core Engagement Team
	23	**19**	**11**

Q28. Are the firm-level and the engagement-level metrics we are proposing for experience of audit personnel clear and appropriate? Should relevant experience be limited to auditing experience rather than including all experience at a public accounting firm? Conversely, is there other relevant experience that would be valuable to include when determining years of experience (e.g., experience at a relevant regulator or standard setter)? If so, how should that experience be measured?

It would be appropriate to include all experience at a public accounting firm as well as relevant experience outside of public accounting, such as work experience at the SEC or other regulator, or within industry. If experience outside the public accounting firm is not included, the metric will not reflect all experience

appropriate and relevant of the firm, especially related to experienced hires. That said, it will be very challenging for firms to accurately track this information. While firms may have appropriate procedures in place to vet a candidate's resume, there will be substantial cost to verify and track such data for purposes of reporting the proposed metric. Further, for firms who acquire or merge with other firms, this seemingly simplistic metric becomes a time-consuming task without a commensurate benefit.

Industry Experience of Audit Personnel

Description: Average years of experience of senior professionals in key industries audited by the firm at the firm level and the audited company's primary industry at the engagement level.

Example firm-level reporting for Form FM:

Industry Experience of Audit Personnel	Industry that accounts for at least 10% of the firm's revenue from audit services	Number of Partners with > 5 years of industry experience	Number of Managers with > 3 years of industry experience
	Banks	15	45
	Utilities	10	30
	Retail	12	63
	Consumer services	5	13
	Oil and gas	4	6

Example engagement-level reporting for Form AP:

Industry Experience of Audit Personnel in the Issuer's Primary Industry	Select the issuer's primary industry from the list provided		Retail
	Engagement Partner years of experience in the issuer's primary industry	Engagement Quality Reviewer years of experience in the issuer's primary industry	Combined number of engagement team Partners (excluding the engagement partner) AND Managers who have industry experience
	16	24	5

Q29. Is three years of experience for managers and five years of experience for partners an appropriate threshold for industry experience? If not, what number of years should we use? Should the same number of years be used to determine industry experience for all levels of seniority (e.g., audit partner and audit manager)?

We do not support this proposed firm-level or engagement-level metric. If an audit committee requests the industry expertise of the engagement team, firms would be able to discuss that with the audit

committee. However, to track and calculate this information across the firm is not operational for a variety of reasons we discuss below.

This metric is particularly difficult for smaller firms and when firms merge or consolidate. Systems for firms may not currently track this information.

If the Board moves forward with the proposed requirement, partner and manager industry experience levels should not be the same. Managers generally have less experience and would typically have less industry experience as well.

The number of entities under audit in a certain industry rather than partner and managers with years of experience may be more meaningful. Further outreach is needed before any determination can be reached.

Q30. We have proposed the following considerations to be taken into account when determining an individual's industry experience: (1) industry experience may be, but is not required to be, exclusive to experience on audit engagements but must be relevant, (2) industry experience is not required to be in consecutive years, and (3) auditors may have industry experience in more than one unrelated industry. Are these the right considerations? Should industry experience be determined by a minimum number (or percentage) of hours on engagements within a particular industry? Does it matter whether the years of experience have been recent or if the experience was not obtained as an auditor? If so, please provide an explanation.

We agree that industry experience should be all relevant experience and not exclusive to the experience on the audit engagement. Similar to our response to Q28, tracking industry experience outside of firm experience is not practical. For this reason, this metric as proposed is inoperable.

It is reasonable that reportable experience, as proposed, would likely not be obtained in consecutive years. Only recent industry experience should be considered as recent experience is more meaningful to issuers given the evolution of industries and matters impacting industries. For example, if a partner with 35 years of experience worked on a banking engagement in the beginning of their career, that experience seems dated and would not be appropriate to include in an "industry experience" calculation. It is difficult to determine the appropriate look-back period. This element of the calculation will be a challenge for firms to comply with based on existing data.

Q31. If an auditor does not work exclusively in one industry, what are the considerations to determine whether the auditor has qualifying experience in multiple industries? Should it be based on hours (time) worked in a specific industry with a minimum percentage, for example 250 hours or 25% of the auditor's time focused on a particular industry as we have proposed?

This is a prime example of the challenge of proposing this metric. Many auditors do not work exclusively in one industry (particularly in smaller cities or rural areas and geographic markets that do not have a concentration of any specific industry) and therefore how to determine industry experience using the industry code framework proposed will be a challenge. Disclosed metrics will not be comparable or meaningful as a result.

Q32. At the firm level we have proposed that firms disclose industry experience for those industries that represent at least 10% of the firm's revenue from audit services, with the option to include additional industries. Is 10% an appropriate percentage to use? If not, should the percentage be higher or lower?

While we do not support this firm-level metric, we offer the following feedback on the proposed metric for consideration. The firm-level metric appears to apply to all industries in which the firm conducts audits (e.g., non-profits). Further, the firm-level metric appears to apply to all partners, and limited only to partners who sign issuer audit opinions. There are many firms with large practices and many partners that audit a small number of issuers. Even large firms have a subset of partners who sign issuer audit opinions. This metric to include all partners would be extremely burdensome without sufficient commensurate benefit. If this firm-level metric is required, it should be only for partners who sign issuer audit opinions.

It is unclear whether revenue is the appropriate benchmark or that 10% is an appropriate threshold. More work is needed to reach a conclusion on the proposed metric.

Q35. As proposed, firms would provide industry experience information at the engagement level based on only the issuer's primary industry. Would it be beneficial for this metric to be disclosed for additional industries in which the issuer operates? If so, are there practical considerations in determining the level of industry specialization disaggregation that should be requested or allowed? What threshold should be used to determine which other of an issuer's industries should be reported?

Overall, this metric is more challenging in practice than it may appear because a look-back period is required for the auditor. As industries evolve and even standardized industry codification changes, this requirement will be extremely burdensome. We agree industry expertise is an important element of the audit and the audit committee, in their oversight role to appoint or retain the auditor, is well positioned to ensure the engagement team has sufficient industry experience or access to industry expertise.

Retention and Tenure

Description: Continuity of senior professionals (through departures, reassignments, etc.) across the firm and on the engagement.

Example firm-level reporting for Form FM:

Retention and Tenure		Partners	Managers
	Average number	85	202
	Average Annual retention rate	91%	83%
	Average Annual headcount change	125%	98%

Example engagement-level reporting for Form AP:

		20X3 Audit – as of the date of the audit report

Retention and Tenure		Average annual retention rate	Average annual headcount change	Average tenure on the engagement (years)
	Partners	0%	100%	1
	Managers	33%	33%	4

Q36. Are the descriptions and the calculations of the proposed (i) retention rate and (ii) headcount change at the firm level and engagement level clear and appropriate? If not, why not?

We support the disclosure of retention and tenure firm-level metrics; however, the calculation for headcount change could be misinterpreted. In the Proposal, the example provided illustrates the average annual headcount change at a firm level for managers of 98% based on the total number of current year-end managers being 200 and the prior year-end managers headcount being 204 (e.g., 200/204 = 98%). It is possible that users may interpret this metric to represent turnover. In other words, in the example, the ending 200 managers could include 200 of the prior year 204 managers or 100 managers from the prior year and 100 new hires. Further with no "net" headcount change (200 managers at the end of the prior year and 200 at the end of the current year), the annual headcount change would be 100%. This could be misunderstood as 100% turnover rather than no net change in headcount. While the Proposal explains the distinction between headcount change and a turnover rate, a user may not be familiar with the distinction. This is an example where a detailed roundtable discussion or pilot test could determine how audit committees or investors may interpret and use this information.

At the engagement level, we do not consider the proposed metrics to be meaningful without appropriate discussion and context. The audit committee is best positioned to evaluate and assess engagement team retention and tenure. There may be appropriate reasons why new team members are intentionally rotated onto or off an engagement, including independence, shifts in the business of the issuer, medical or family leave, change in work locations, changes in company headquarters or business strategies, and more.

Audit Hours and Risk Areas (engagement-only)

Description: Hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours.

Example engagement-level reporting for Form AP:

Audit Hours and Risk Areas	Percentage of total audit hours incurred by Partners and Managers on the engagement team on significant risks, critical accounting policies and practices, and critical accounting estimates	**36%**

Q42. Are firms currently tracking the time incurred by partners and managers on significant risks, critical accounting policies and practices, and critical accounting estimates? If not, what should the Board be aware of related to potential costs or challenges related to obtaining this information?

Based on our outreach, it is our understanding that firms may not track time on significant risks, critical accounting policies and practices, and critical accounting estimates to the extent that would be required by the Proposal. Implementing this requirement would result in significant costs. Further, partners and managers at certain firms track time related to supervision and review and not at the significant risk level.

The Proposal refers to an example identifying significant risks as "business combinations, revenue, intangible assets, warrants."[45] In practice, the significant risk would be narrower and targeted. Those hours charged to "revenue" would overstate hours devoted to a significant risk related to revenue.

Similarly, it is our understanding that many firms track time at a financial statement line item level, such as Investments. A significant risk may exist related to the valuation of alternative investments. The audit procedures to address this significant risk would be a subset of the audit procedures related to Investments. Therefore, tracking data to comply with this proposed metric would require a change in practice and significant costs to implement.

For certain firms, engagement team members not part of the audit field team such as those in the national office or non-audit lines of service (tax, information technology, valuation, etc.) do not track their time at the significant risk, critical estimate or critical accounting policy level. This practice may vary by size of firm and public company audit practice.

Q44. Under the proposal, the definition of engagement team includes employed specialists, but not engaged specialists. Should this metric be revised to also include engaged specialist hours? Why or why not?

In general, this is an example of information we believe the audit committee currently receives in sufficient detail today when approving audit budget and fees. We do not believe the benefits of standardizing and changing current practice of time tracking outweighs the costs. This may be particularly challenging for smaller firms.

Allocation of Audit Hours

Description: Percentage of hours incurred prior to and following an issuer's year end across the firm's issuer engagements and on the engagement.

Example firm-level reporting for Form FM:

Allocation of Audit Hours	Percentage of audit hours incurred prior to issuers' year ends for all issuer engagements	62%
	Percentage of audit hours incurred following issuers' year ends for all issuer engagements	38%

[45] Proposal, page 81.

Example engagement-level reporting for Form AP:

Allocation of Audit Hours	Percentage of total audit hours incurred prior to issuer's year end	64%
	Percentage of total audit hours incurred following the issuer's year end	36%

Q45. Is the calculation of the allocation of audit hours to prior to and following the issuer's year end clear and appropriate? Why, or why not?

At the engagement level, this may be an appropriate metric for the engagement partner to discuss with the audit committee. This discussion can lead to an overall conversation about any challenges to execute the audit and action the audit committee can take to support audit quality if necessary. The necessity of this communication may vary depending on the size and complexity of the company and the audit.

Q46. Would a different, more granular, metric be more appropriate, for example allocation of audit hours devoted to each phase of the audit—planning, quarterly reviews, interim field work, final field work up until report release date, and post-report release date until audit documentation completion date? Why, or why not?

We do not believe a different, more granular, metric would be appropriate. A more granular level of detail would be overly burdensome without commensurate benefits. There are a variety of factors that influence how and when audit staff perform various procedures.

Quality Performance Ratings and Compensation (firm-level only)

Description: Relative changes in partner compensation (as a percentage of adjustment for the highest rated group) between groups of partners based on internal quality performance ratings.

Example firm-level reporting for Form FM:

Quality Performance Ratings and Compensation	**Quality performance rating assigned in 20X3**	**Distribution of quality performance ratings**	**Average annual compensation adjustments (as a % of adjustment for the highest rated group)**
	1	7%	100%
	2	20%	80%
	3	73%	49%
	4	0%	N/A

Q48. Are the proposed metrics and calculations for quality performance ratings and compensation clear and appropriate? If not, why not? Are there other metrics that would be appropriate? If so, what are they? Is there another way to calculate the correlation between partner performance and compensation? If so, please provide an example.

We strongly oppose disclosure of this proposed firm-level metric. Partner compensation is confidential business information that is not appropriate to disclose. PCAOB registered firms are for-profit entities that should have flexibility in designing a compensation strategy that is tailored to their business model and needs. Further, this metric appears to assume that all firms have an internal firm quality performance rating. In reality, many factors are part of a partner's performance rating. This metric does not take into account other mechanisms the firms use to drive accountability by their partners (e.g., monetary fines for inspection findings and/or internal reviews). Further, our understanding is that firms have different approaches to compensating their partners and partner equivalents. This could impact comparability of the proposed metric.

Q53. Would it be more appropriate to disclose firm policies relating to partner compensation and how quality performance is measured and incorporated into the firm's policy, rather than reporting the proposed compensation and quality performance rating related metrics? Why or why not?

It would be more appropriate, and also meet the objective of the Board, for firms to disclose qualitatively how audit quality is considered and incorporated into the firm's overall compensation strategy.

Audit Firms' Internal Monitoring

Description: Percentage of issuer engagements subject to internal monitoring and the percentage with engagement deficiencies at the firm level; whether the engagement was selected for monitoring and, if so, whether there were engagement deficiencies and the nature of such engagement deficiencies at the engagement level.

Example firm-level reporting for Form FM:

Internal Engagement Monitoring	Period covered by the firm's most recently completed internal monitoring cycle	September 1, 20X2 to August 31, 20X3
	Percentage of issuer engagements selected for internal monitoring	13%
	Percentage of internally monitored issuer engagements where an engagement deficiency was identified	21%

Example engagement-level reporting for Form AP:

Internal Engagement Monitoring	Previous engagement monitored	**Yes**	
	(i) Financial statement year end monitored	**December 31, 20X2**	
	(ii) Deficiency(ies) identified	**Yes**	
	(iii) Deficiency description:		
	a. Deficiency related to: [select from drop-down]	b. Area of noncompliance	c. Identify type of testing deficiency or area of

	• Financial statement line item, • Disclosure, or • Other noncompliance with applicable professional and legal requirements		noncompliance with other applicable professional or legal requirements
	1 – Financial statement line item	**PP&E**	**Testing of control design or effectiveness**
	2 – Disclosure	**Fair value**	**Test of details**
	3 – Other noncompliance with applicable professional and legal requirements	**Communications**	**AS 1301, Communications with Audit Committees**

Q54. At the firm level, we are proposing to require firms to provide disclosure of (i) the period covered by the firm's most recently completed internal monitoring cycle, (ii) the percentage of issuer engagements selected for internal monitoring, and (iii) the percentage of internally monitored engagements that had an engagement deficiency. Should we also consider providing the actual numbers of engagement deficiencies identified in the firm's most recent monitoring calendar? Why or why not?

We believe engagement deficiency is too low a bar for the calculation of this metric. Users may assume that an engagement deficiency is akin to an instance where the firm had not obtained sufficient appropriate audit evidence to support its opinion, or a PCAOB Inspection Part I.A deficiency, which is not accurate. This could exacerbate the perception that there was an "audit failure" when an engagement deficiency also includes instances of non-compliance with PCAOB standards or rules other than Part I.A deficiencies. We recommend a threshold similar to Part I.A deficiencies to be more appropriate for reporting the firm-level metric.

Q55. At the engagement level, firms would be required to disclose whether a previous engagement for the issuer was selected for internal monitoring in the most recently completed internal monitoring cycle and, if so, whether the firm identified any engagement deficiencies related to (1) financial statement line items, (2) disclosures, or (3) other noncompliance with applicable professional and legal requirements. Are these categories appropriate? If not, why not? Should there be additional categories? If so, what should they be and what types of deficiencies should they cover? Provide an explanation of your answer.

We do not support public disclosure of any engagement-level metrics. We strongly object to this proposed requirement. We do not believe it is appropriate or consistent with SOX for details of internal inspection findings to be disclosed at an engagement or issuer level. First, in addition to the concern noted above related to the client confidentiality implications of the Proposal as a whole, we have specific confidentiality concerns regarding disclosure of registered firms' internal monitoring programs. Information regarding such programs is used by the PCAOB both as part of its own inspection process and as an aspect of a firm's quality control system whose evaluation by the PCAOB is dictated by SOX to be confidential in most circumstances. It would be inconsistent with SOX for the PCAOB to bypass the confidentiality applicable to its inspections and quality control processes by requiring the public disclosure of information that Congress

intended to be confidential.[46] *Second, this proposed reporting requirement could be inconsistent with requirements in different jurisdictions to obtain client consent to disclose results of inspections at an engagement level.*

Restatement History (firm-only)

Description: Restatements of financial statements and management reports on internal control over financial reporting ("ICFR") that were audited by the firm over the past five years.

Example firm-level reporting for Form FM:

		Audit Report Initially Issued				
		2023	**2022**	**2021**	**2020**	**2019**
Restatement History	Revision restatements of the financial statements for errors	0	3	6	3	8
	Reissuance restatements of the financial statements for errors	0	1	2	1	3
	Reissuance restatements of management's report on ICFR	0	1	1	0	0
	Total issuer engagements	100	105	110	105	100
	Total issuer engagements with audits of ICFR	30	35	40	35	30

Q59. Is five years an appropriate number of years to require firms to report? If not, what would be the appropriate number of years?

In our view, three years would be more practical for implementation and consistent with issuer disclosure requirements. Further, we recommend this metric be required on a prospective basis.

Q60. Should we require reporting of revision restatements? Why or why not?

No. We do not think it is appropriate to require reporting of revision restatements or "little r" restatements. By definition, "little r" restatements are not material to previously reported information. Should the Board determine to require reporting on revision restatements, it would be most practicable to implement this requirement on a go-forward basis due to issuer disclosure requirements (i.e., amendments made to Form 10-K, Form 20-F, and Form 40-F effective January 27, 2023).

[46] The Board has publicly acknowledged that the Sarbanes-Oxley Act prevents it from disclosing the identity of the issuers whose audits are subject to Part I inspection report findings. *See* PCAOB Rel. 2012-003 at A-5 n.8 (Aug. 1, 2012). Similarly, the Board acknowledged in its Adopting Release for QC 1000 that its ability to require the public disclosure of a firm's internal assessment of its quality controls was limited by "[l]egal constraints." PCAOB Rel. 2024-005, at 10 (May 13, 2024). The Board then identified this Firm and Engagement Metrics proposal as a vehicle reflecting its "commit[ment] to finding additional ways of providing public disclosure to better inform investors about firms and PCAOB audit engagements." Id. In other words, public disclosure under Section 102 of the Act appears to be a conscious alternative to confidential consideration of the same information pursuant to Section 104.