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Ms. Phoebe W. Brown, Secretary
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

7 June 2024

Re: PCAOB proposing release on Firm and Engagement Metrics
(PCAOB Release No. 2024-002; Docket Matter No. 041)

Dear Ms. Brown:

Ernst & Young LLP (EY US) is pleased to provide comments to the Public Company Accounting Oversight Board (PCAOB or Board) on the proposed amendments to its rules regarding public reporting of standardized firm and engagement metrics (the proposal).

We are supportive of the Board's efforts to enhance stakeholder understanding of the audit. For this reason, we annually publish audit quality reports to provide information and data that we believe is useful to our stakeholders. We believe that efforts to promote consistency, comparability and other objectives must also minimize the risk of unintended consequences.

Executive summary

While we broadly support the concept of public disclosure of informative and consistent firm-level metrics that could be useful to stakeholders, we have several concerns about the usefulness and comparability of certain proposed metrics and how they would be publicly reported.

Further, as we have commented previously, context is critical to properly interpret quantitative measurements and the implications about audit quality or performance at the engagement level. Each issuer's business is unique, and audits are tailored to respond to risks in the issuer's business and operating environment. Reasonable interpretation of engagement-level metrics would thus require significant context.

As a result, we are not supportive of requiring public disclosure of engagement-level metrics. Instead, we believe audit committees are best positioned to obtain the context necessary through a two-way dialogue with the auditor to leverage engagement metrics in connection with their statutory mandate.

In referring to these proposed metrics as performance metrics, the Board rightfully acknowledges that no "… set of metrics can comprehensively measure audit quality," given that there is no well-established definition of audit quality. [1] Due to the numerous inputs that can influence audit quality,

[1] See page 6 of the proposal.

including those that cannot be quantifiably measured (e.g., professional skepticism), any required quantitative metrics even with sufficient context would need to be carefully considered by external users together with the qualitative factors to inform their decision-making related to the auditor's performance in conducting a high-quality audit.

To further that point, we believe that executing high-quality audits cannot be summarized in quantitative metrics given the extensive amount of professional judgment required for an auditor to fulfill their responsibilities under the standards. Just as there is no one definition of audit quality, we believe it would be challenging to provide decision-meaningful quantitative metrics on a given engagement that are fit for external use when the extent of qualitative variables tied to the foundational responsibilities of an auditor (e.g., due care, professional skepticism) is significant. We are also concerned that an overemphasis on metrics could result in the unintended consequence of encouraging firms to focus on consistency with metrics due to concerns that significant differences with other firms could imply weaknesses in audit quality or result in other conclusions that would not be accurate. Such a focus could lead to the commoditization of the profession and reduce incentives to innovate the audit approach.

In addition, given the anticipated significant costs to implement and comply with the proposed requirements (as discussed in the "Effective date" section below) and the significant changes in the business environment since the PCAOB's previous rulemaking in this area, we believe the Board should seek additional feedback through roundtables and other dialogue with audit committees, investors, audit firms and others to make sure it receives sufficient input on what information about the audit would be most useful to stakeholders and could be disclosed in a cost-effective way that minimizes unintended consequences. This may require the PCAOB to repropose the amendments.

In the Board's economic analysis, much of which is qualitative,[2] the metrics and resulting comparability to aid investor and audit committee decision-making are identified as the economic problem to be addressed. However, the analysis does not provide substantiating evidence that the proposal would realize the asserted benefits and solve the issues the Board believes need to be addressed.

Furthermore, the analysis insufficiently considers the significant costs and unintended consequences to support a proper evaluation of the proposed reporting or alternative solutions. Without further outreach and study, we believe the analysis is not sufficient to assess the proposal's efficacy and appropriately consider alternatives.

We provide more detailed discussion on these matters and additional observations about the most significant provisions of the proposal below.

Support for public disclosure of some firm-level metrics

While we are supportive of the general concept of public reporting of firm-level metrics, we believe that even the best fit-for-purpose metrics would need to be accompanied by suitable context to allow users to understand the differences among firms (e.g., size, structure, client composition). We have reported certain firm-level metrics in our annual audit quality report for over a decade based on market-driven requests, which underscores our commitment to long-term sustainable audit quality and transparency.

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[2] The proposal states on page 123: "Because there are limited data to quantitatively estimate the economic impacts of the proposal, much of the Board's economic analysis is qualitative."

We have observed many firms publish annual audit quality reports (or equivalent reports) that include quantitative metrics and qualitative and other contextual information about their practices to help a reader understand what the metrics mean, including their relevance to audit quality. Furthermore, such disclosures have been expanded and enhanced over time in response to the needs of the marketplace and how audits have evolved. We believe that this principles-based, market-driven approach promotes competition among firms to distinguish the services they provide, while mitigating the risk of commoditization.

Appropriate, consistent and readily interpretable firm-level metrics would allow users to better understand the differences among firms and give them a broader understanding of how these differences may influence audit quality. However, we believe some proposed metrics would not provide meaningful information on audit quality and, therefore, would not promote informed decision-making. Instead, they would impose a high cost to compile and report these metrics. Refer to the "Our perspectives on the proposed firm metrics" section.

Alternatives should be considered for disclosure of engagement-level metrics

We do not support requiring firms to publicly disclose engagement-level metrics. We believe audit committees are best positioned to use these metrics to obtain the context needed to interpret and assess their importance to the audit.

Context is critical to appropriately interpret how any metric or set of metrics impacts audit quality or performance, and it is essential for decision-usefulness. We have significant concerns about the proposal's assertion that firm-level metrics and narrative disclosure would provide the necessary context for external users to interpret engagement metrics. We encourage the Board to consider alternatives and suggest some actions it could take to prevent unintended consequences while promoting more information sharing about specific audit engagements. We are also concerned about the unintended consequences associated with the use of metrics without appropriate context and other matters, such as the scalability of the proposed requirements (as discussed in the "Other matters" section).

Audit committees are best positioned to use engagement-level metrics

We continue to believe that meaningful engagement metrics would be best used by audit committees, given their important role in protecting investor interests and overseeing the integrity of the issuer's accounting and financial reporting processes and internal and external audits as identified in the federal securities laws.

Audit committees are statutorily mandated to be "… directly responsible for the appointment, compensation, and oversight of the [external auditor] …" and "… [the external auditor] shall report directly to the audit committee."[3] Their role and mandate require significant communications with the auditor. The two-way dialogue with the auditor provides audit committees with important perspectives for their evaluation of auditor performance, including qualitative factors such as the auditor's objectivity and professional skepticism, that cumulatively provide the context needed to interpret engagement metrics. Relevant and useful metrics can facilitate meaningful conversations between the auditor and audit committee and promote accountability in the performance of the auditor on behalf of investors.

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3 Exchange Act § 10A(m), Standards relating to audit committees.

Importance of context

Engagement metrics without appropriate context would be highly susceptible to misinterpretation, thus negating the proposal's intended objectives and asserted benefits.[4]

In our comment letter on the PCAOB's 2015 Concept Release,[5] we emphasized the critical importance of context to promote understanding and the decision-usefulness of any quantitative metric related to audit quality. Our experience (including through our own piloting efforts) has repeatedly shown that understanding an engagement metric and its implications on audit quality or performance is most effective when there is robust two-way dialogue between the audit committee and the auditor.

Metrics can vary based on the nature of the engagement (e.g., opining on the effectiveness of internal controls over financial reporting), the uniqueness of the issuer's business and environment (e.g., complexity of information technology (IT) landscape), an auditor's risk assessment and other professional judgments. Therefore, robust dialogue would be required to fully understand those metrics.

For example, using retention and tenure metrics as an indication of the engagement team's ability to conduct a high-quality audit may be misleading. Many factors may influence how an engagement team is composed and how turnover is managed, which can affect these metrics. Many changes at the engagement level are driven by statutorily mandated rotations or other strategic resource decisions as part of a firm's system of quality control to mitigate risks, such as familiarity bias, that may not be apparent to a user.

The proposal also asserts that "… a comparatively high rate of turnover or higher-than-expected turnover could adversely affect the audit …" because it could indicate a loss of valuable knowledge about the company and its operations. The intended use of such metric could encourage comparisons and speculation by users and would be subject to inherent user biases (e.g., is longer tenure good or bad for audit quality?).

In our experience, a two-way dialogue is critical to convey all pertinent information when assessing the appropriateness of the overall composition of the audit team. These assessments are specific to the particular issuer audit because the company's operations and the auditor's risk assessment are considered when an audit team is composed. Even with two comparably sized issuers operating in the same industry, the audit team composition and approaches may be very different, depending on the degree of centralization of the company's operations, the IT environment and related complexity, among other factors. This information, along with considerations about the team's collective skillsets, would not be publicly available under the proposal.

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4 From "Statement on the Firm and Engagement Metrics Proposal — Helpful or Harmful to Investors?" by PCAOB Board Member Christina Ho9 April 2024: "… putting metrics into context is crucial to minimize the risks of the reported data being misunderstood and manipulated for unscrupulous purposes. When requiring and publishing information as a regulator, we have an obligation to ensure that we do not contribute to the culture of misinformation by unscrupulous actors who seek to sow the seeds of chaos into the financial reporting ecosystem." Although the proposal indicates that some of the metrics are "highly contextual measurements," I am concerned that this proposal falls short in providing sufficient context for some of the subjective and complex metrics such that they may not be useful in decision-making."

5 **EY Comment Letter: Concept Release on Audit Quality Indicators, PCAOB Rulemaking Docket Matter No. 041 (pcaobus.org).**

Further, properly managed team turnover can drive improvement in audit quality by bringing in new team members with fresh perspectives on accounting matters and the related audit approach. The management of engagement teams is also subject to other elements of a firm's system of quality control, such as monitoring and coaching programs, that are designed to identify engagements that undergo significant change and provide support in the execution of high-quality audits. Therefore, this metric would be difficult to objectively interpret because any changes would not indicate whether the team executed a high-quality audit.

Another example of the importance of context at the engagement level relates to the percentage of hours provided by an auditor's specialists on an engagement. Without knowing the skillset of the engagement team, a user may incorrectly infer that the audit with the lower ratio of specialist time may be more susceptible to quality issues. However, there are several important factors that affect this ratio, including the auditor's risk assessment and the complexity of the engagement. For example, based on the assessment of estimation uncertainty, subjectivity and complexity, an auditor may conclude that the company's portfolio of investments has lower inherent risk.

Additionally, the engagement team may be resourced in a manner such that the team members, based on their prior experiences and related training, are determined to collectively have the appropriate level of specialized knowledge necessary to execute the procedures and assess the reasonableness of the company's valuation. This inherent risk could change from year to year, and the judgments regarding the need to involve specialists could also change. All these factors demonstrate why the use of an auditor's specialist metric may not inherently convey whether the quality of the audit work performed is higher or lower and, therefore, would not be helpful to users who lack sufficient context to evaluate the metric.

The proposal would provide two remedies to overcome the need to contextualize engagement metrics: (1) the use of firm-level metrics to provide context for engagement-level metrics and (2) allowing a limited narrative disclosure for each metric submitted by an engagement team.

As highlighted in our examples above, qualitative and contextual information is critical to promote an understanding of engagement-level metrics, which we believe narrative disclosure alone cannot overcome. While firm metrics may provide a point of reference, they would not necessarily provide sufficient context for relationships at individual engagements. As we mentioned earlier, a prescriptive, one-size-fits-all approach that does not allow for flexibility or tailoring to individual engagements would not appropriately capture the inherent professional judgment necessary to perform high-quality audits.

We believe that allowing limited narrative disclosure for each metric would not effectively overcome the informational burden necessary to provide sufficient context about engagement metrics from year to year. Based on our experience and outreach to audit committees that have insights on how the metrics interplay with the specific dynamics of their audit teams and the company's business and operating environment, narrative context alone would not be sufficient to inform how such metrics interacted and influenced the audit. An open, and often continuing, dialogue with an ability to request further information from the auditor is necessary to evaluate the metrics and assess their effect on the audit.

As our examples above show, an extensive variety of contextual information can affect engagement metrics, which audit committees obtain in their ongoing interactions with the audit team. We believe it would be challenging for other stakeholders to leverage these metrics to make assessments about the audit.

Furthermore, if information about the company and its operating environment would be necessary to provide sufficient context for the metrics, it is unclear whether auditors would be able to provide such information due to their obligations related to client confidentiality and disclosure of commercially sensitive information. In the event that the auditor's obligation could be clearly resolved and disclosure could be permitted, it is still unlikely that narrative information would be sufficient due to the static nature of such information.

Therefore, we do not support requiring public disclosure of any of the proposed engagement-level metrics, since they could misinterpreted, or at worst, misused to make inappropriate judgments about audit quality and the quality of a company's financial reporting. Such an outcome would be harmful to capital markets.

Potential alternatives for engagement-related metrics

Our experience in monitoring our audit practice and dialoguing with audit committees supports the Board's assertion that "… audit quality is driven by a complex array of factors beyond those that can be addressed by metrics," and there is not a direct link between the metrics (individually and in the aggregate) and audit quality.[6]

Since no consistent set of engagement metrics has been shown to be useful by a majority of stakeholders, we are supportive of the PCAOB's efforts to explore alternatives that focus on enhancing the audit committee's ability to oversee the auditor. We believe the tools available to the Board to achieve this include the following:

- Recognizing the key role that audit committees play in overseeing the audits, the PCAOB could issue staff practice alerts or guidance that suggests engagement metrics an audit committee could consider using to promote stronger dialogue with the independent auditor in connection with its oversight, including its annual evaluation and appointment decisions. This alternative would allow the PCAOB to enhance awareness, while providing audit committees with the flexibility to tailor the metrics to fit their informational needs.

- The Board could engage with the Securities and Exchange Commission (SEC) to revisit its concept release on revising audit committee disclosures to consider whether investors would benefit from expanded disclosures from audit committees about their oversight and evaluation of the auditor.[7] This could also include seeking additional feedback through roundtables and other dialogues with audit committees, investors, audit firms and others to make sure the Board receives sufficient input on what information about the audit would be useful and could be obtained in a cost

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6 See page 127 of the proposal.

7 See SEC Release No. 33-9862, Possible Revisions to Audit Committee Disclosures.

effective way without causing unintended consequences. Such disclosure directly from the audit committee would address the information asymmetry that the proposal argues is affecting shareholder oversight of the audit committee by providing additional information on which shareholders can base their votes to appoint audit committee members.[8]

Our perspectives about the proposed firm metrics

The standardization and public disclosure of firm metrics may help inform the public about aspects of audit performance and provide complementary information to audit committees for their oversight. The standardization of metrics, however, limits their adaptability to changes in the business and auditing environment (e.g., the evolving use of technology), which may make these metrics less meaningful or fit for purpose over time.

The proposal also would invite comparison of the metrics by the public, which will have limited context to interpret them, to facilitate informed decision-making about audit quality. Although the Board acknowledges that these metrics are not intended to measure audit quality, this distinction may not be understood by the public that expects decision-useful metrics about audit firm performance.

Metrics that are not clearly linked to audit quality are more likely to be misinterpreted or misused to make assessments about audit quality. We are concerned that the purpose of and proposed use for these metrics would be to establish comparable quantitative measurements for analysis over time. Any quantitative analysis lends itself to the development of benchmarks that could fuel public misperceptions about the responsibilities of the auditor and potentially undercut audit quality by leading audit firms to achieve arbitrary results to avoid the risk that any differences from peers could imply lower audit quality. Therefore, we believe it is important that publicly disclosed firm metrics be carefully scrutinized for their decision-usefulness and susceptibility to misinterpretation and misuse.

In our view, metrics that would be more appropriate for a broad audience that would have limited context should share the following criteria:

- Be readily interpretable, straightforward and scalable to audit firms of different sizes
- Align with measures used in the system of quality control to manage the audit practice
- Have some broadly recognizable linkage to executing quality audits
- Minimize unintended consequences, such as comparability without extensive context
- Meet the information needs by users

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8 The proposal states that the metrics could inform shareholders in their proxy votes to ratify the external auditor and appointment of the board members. While ratification votes are often non-binding, votes in appointing the Board and independent audit committee are binding. Appointment of the audit committee is a concrete and established way that shareholders can affect changes in the oversight of the auditor. Audit committee disclosures are arguably a more direct way to correct any information asymmetry that shareholders need. Auditor provided metrics may inform shareholders, but they are limited, as described throughout this letter, and require context that investors do not have access to in the same way that the audit committee has direct access to the auditor and management.

We also believe it is important for metrics that are mandated to have the design and utility to remain fit for purpose over time.

Metrics that could be designed for firm-level public disclosure

We believe the following proposed metrics could meet the above criteria, assuming ample context would be provided with them:

- Partner and manager involvement
- Workload[9]
- Experience of audit personnel
- Retention and tenure
- Allocation of audit hours
- Restatement history[10]

These metrics have been used by firms in some form over recent years in their audit quality reports with corresponding contextual description. Although we believe these metrics are more straightforward and easier to interpret, they still require context and could be misunderstood even when comparing across firms of equivalent sizes.

For example, when comparing partner and manager involvement metrics without context, a user could infer that a higher percentage is correlated with higher audit quality, based on the belief that more supervision means a higher quality audit. However, the metric could be influenced by other contextual factors, such as the firm's structure, the size of its issuer audit base, the size and complexity of the issuer audits or other firm initiatives or changes from year to year. Firms with fewer issuers would likely require more context because changes in audits from year to year may have a more significant impact on the metrics or make them less comparable.

We also believe these firm-level metrics could be beneficial to an audit committee (as the body charged with auditor oversight) that is familiar with the risk profile of the engagement and how the engagement team is staffed.

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[9] While measuring workload may have some informational value, we do not support the extensive, granular quarterly calculation of workload as proposed. Similar information could be obtained if the average annual overtime is disclosed. This information would be less costly to compile and report. Quarterly averages would be subject to many factors, such as taking leave or differing issuer fiscal periods, that may not be comparable year over year, quarter to quarter or across audit firms.

[10] Restatement history should consider only the preceding two years, consistent with the financial statement information presented in issuer filings and exclude "little r" restatements, which are by definition immaterial to users and do not inform a user about the quality or performance of the audit.

Metrics that, as designed, would not meet the criteria described above

We do not believe that the remaining proposed firm metrics noted below would meet several of the criteria we describe above (e.g., they would not be readily interpretable, they would be more susceptible to unintended consequences), particularly those related to comparability.[11] The ability of users to arrive at opposing interpretations would also undermine the proposal's objective to promote competition based on audit quality, since the linkage to audit quality is unclear and subjective. [12] Some of these metrics also would have operability challenges, making them difficult to compile and report.

- Audit resources — Use of auditor's specialists and shared service centers
  - Higher or lower percentages of engagements that use either specialists or shared service centers would not clearly correlate with audit quality, and interpretation of these metrics would likely be influenced by user biases. Therefore, such metrics would be open to interpretation and less likely to effectively inform a user.
    - The use of auditor's specialists varies due to factors such as the specialized knowledge of the engagement team, firm policies, nature of the issuer or other unique events and conditions.
    - The use of shared service centers,[13] in our experience, has evolved to span from those that facilitate audit execution on lower risk areas to centers of excellence staffed with dedicated technical resources who have greater experience with specific accounting topics or compliance matters. As a result, given the broad nature of activities these centers can provide, judgment regarding their effect on audit quality requires significant context that would not be considered in the Proposal.
- Industry experience of audit personnel
  - In our view and based on how we deploy our resources, the experiences of our audit personnel are more transferrable in many industries that share similarities and where there are less industry-specific matters (e.g., either accounting application or auditing-specific matters) to navigate. For example, there may be less of a gap in experience from retail to manufacturing due to similar accounting treatment for transactions, than from retail to insurance.

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[11] Audit risk by risk area is an engagement-level metric and is not listed among the metrics that are not appropriate for public disclosure. In addition to concerns about public disclosure of engagement-level metrics, we believe that the audit risk by risk area metric would not be useful because it relies on subjective judgments to allocate time as dedicated to a risk area when in reality many audit areas overlap and are often interrelated. The subjectivity would likely this metric incomparable and more likely to misinform users. It also would be more onerous for firms to compile and report.

[12] In addition, we are concerned more broadly that the original objective stated in the 2008 Advisory Committee on the Auditing Profession (ACAP) report will not be achieved through the public disclosure of these metrics for the same reason, which was to "… develop key indicators of audit quality and effectiveness to promote competition and choice in the industry based on audit quality."

[13] We believe that the Board should consider revising the description of a shared service center, which is currently consistent with the Form AP guidance.

  - Operationally, it would be challenging to accumulate individual industry experience based on the proposal's prescriptive requirements when considering factors such as companies that operate in multiple industries or changed industries over time. This may lead to inconsistencies in the application of the metric, and therefore, we believe it would be impractical to implement.

  - An unintended consequence would be that as industries change over time, it may not be meaningful to tally years of experience based on an arbitrary hour and percentage requirement as proposed. If industry experience is important, more recent experience would be more pertinent.

- Quality performance ratings and compensation

  - A firm's quality performance ratings and compensation structure would be competitively sensitive information that varies based on various factors, making comparability difficult to understand and not straightforward. We believe an alternative such as a narrative disclosure by firms on how quality is assessed and how it impacts compensation would still achieve the proposal's objectives.

- Audit firm's internal monitoring

  - It would be challenging to compare the results of internal monitoring programs across firms based on the significant judgments involved and the differences between firms' programs and categorizations of results.

  - There are also scalability concerns related to this metric. Consider firms that audit a small number of issuers but have a relatively larger private company audit practice. These firms may have confusing metrics when comparing across years (e.g., issuer audits are selected for inspection less frequently or are selected in some years and not others). Further, other member firms may also include in their inspection programs compliance with jurisdictional requirements that are less relevant to PCAOB audits, thus making the metric more difficult to understand and compare.

Potential alternatives for firm-level metrics

The lack of consensus from audit committees or other stakeholders on a consistent, standardized set of metrics, combined with the operational differences (e.g., mix of portfolios of engagement types) between audit firms and the evolving auditing and business environment, may suggest that principles-based reporting would maximize usefulness and relevancy to users. In addition, there may be other more effective and less costly alternatives to decrease information asymmetry and meet the proposal's objectives.

We believe that the Board should perform further outreach to determine an approach that would align the usefulness of the firm metrics with the information needs of users and the short-term and long-term related reporting costs. This would also help the Board evaluate whether the metrics are fit-for-purpose in being decision-useful and relevant to assessing and overseeing the performance of an auditor or audit committee.

We believe it is important to engage with audit committees, audit firms, retail and institutional investors, and other stakeholders or members of the public to assess their interest in using metrics and their informational needs. In particular, we believe that outreach with audit committees would help understand how audit committees, which are statutorily mandated for the appointment, compensation and monitoring of the external auditor, assess audit quality and performance.[14]

The PCAOB could also consider additional piloting of firm metrics (e.g., those identified through this due process by stakeholders and through our proposed outreach) to observe how they are used and to assess their effectiveness in producing the intended benefits. Gaining broader consensus on the metrics' decision-usefulness from stakeholders, audit committees, audit firms and other members of the public would be prudent to avoid unintended consequences and provide time to study their benefits, costs and limitations.

Other matters

Scalability

We solicited and incorporated views from those with roles elsewhere in the EY global network of firms. The proposal would require each member firm in our global network that serves as the lead auditor for one or more SEC accelerated or large accelerated issuer(s) to disclose firm metrics.

These firms vary in audit practices and mix of PCAOB and non-PCAOB audits, making them incomparable to public accounting firms with different portfolios of audits. Audit firms with a small base of issuer audits would have more volatile metrics when the measures from one or a few engagements could undermine comparability or misrepresent the firm's overall issuer audit portfolio.

Therefore, this could lead to unintended consequences as follows:

- With respect to comparability, we believe there is a risk that EY member firms would be benchmarked against each other to assess the audit quality of a particular member firm. As discussed above, we believe this could lead to inappropriate judgments on audit quality due to differences in issuer audit base and client composition, among other things, that may be subject to differing auditing standards (PCAOB vs. non-PCAOB) and business environments, relative to other firms.

- Quantitative metrics may be interpreted as objective measures that can fuel misperceptions about the auditor's foundational responsibilities by minimizing the subjective aspects that could affect metrics, as discussed in some of the examples above, and other important qualitative information about network firms. There are qualitative benefits of being a part of a global network of firms that cannot be properly captured or measured through the proposed metrics. These include the use of consistent policies and procedures that drive use of training, technology, consultation and other centrally available support across the network.

[14] Exchange Act § 10A(m), Standards relating to audit committees

In general, when scalability is considered, the stated benefits of the proposal would impact only a small population of users, and there would be incremental unintended consequences to consider when weighing the costs against the benefits of expanded reporting.

Therefore, we suggest revising the scope of the proposal to include a threshold[15] for applicability of the requirement for firm-level reporting metrics. Voluntary disclosure of metrics based on the needs of the marketplace for firms below the aforementioned threshold would better support the costs to comply with the requirements as currently proposed and related unintended consequences.

Compliance with non-US law

We encourage the Board to include a provision acknowledging that any required disclosure by a firm would need to comply with applicable local laws and regulations.

Reporting

While the proposal does not explicitly address materiality, we believe any final standard needs to incorporate the concept of materiality, including guidance on how firms would consider matters of clarification for significance, such as the duty to amend submissions for immaterial inaccuracies or recognition of new facts arising subsequent to report submission.

Further, we believe any final standard should state that amendments would be needed only to correct material inaccuracies in metrics submitted to the PCAOB. As acknowledged in the proposal, reporting would require the use of estimates due to the complexities in gathering information from across the firm's network. Guidance related to the assessment of materiality would help firms design effective systems, as well as guide their decisions related to amendments when differences arise. We believe such guidance would be essential for implementing any final standard effectively to balance the costs of compiling and reporting the information. We also believe such guidance should extend to the evaluation of differences that may arise in the disclosure of participating firms on Form AP.

Economic analysis

The Board acknowledged "there are limited data to quantitatively estimate the economic impacts of the proposal." We expressed our concerns about the economic analysis in the executive summary of this letter. We welcome the opportunity to engage with the Board and its staff and provide additional information and our views on the costs of implementing the reporting requirements as proposed, so the Board will have all the available data to fulfill its mandate and determine whether the costs would be commensurate with the benefits.

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[15] In our opinion, a threshold exempting public accounting registered firms with fewer than 100 issuer audits from firm-level metric reporting would be appropriate.

Effective date

Even if the proposed reporting requirements are modified as we recommend, they still would require an extended implementation period. While certain data that would be necessary to comply with the proposal is available today, such data would not be in the format required under the proposal, and firms would need time to develop and implement appropriate policies, processes, IT solutions and controls to comply and reasonably assure the accuracy of reported metrics.

We also would need time to develop localized training to educate our professionals and implement appropriate monitoring and accountability. The numerous member and non-member firms that perform a role in our issuer audits (including multinational issuer audits) would all need to modify their policies, processes and procedures to capture the required data, evaluate it and submit it timely for reporting.

In addition to the roundtables and other dialogue with stakeholders that we recommend in our executive summary, we encourage the Board to engage with audit firms as this proposal is finalized; because we believe that as adoption challenges arise, the PCAOB or its staff should also provide guidance that promotes consistent interpretation and application of the requirements.

Finally, our recommendation to extend the implementation period also reflects other standards and rules being adopted and implemented over the same period.

Closing

We appreciate the opportunity to comment on the proposal, for which we have prioritized our comments on the most significant proposed provisions to allow us time to also provide our comments on the PCAOB's proposal on firm reporting over the same period.[16]

We would be pleased to discuss our comments at your convenience and welcome continued engagement and dialogue with the Board or its staff.

Very truly yours,

Ernst + Young LLP

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[16] The Board also adopted two standards on quality control and on the general responsibilities of the auditor on 13 May 2024.