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SENT VIA EMAIL: comments@pcaobus.org

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

RE: PCAOB Rulemaking Docket No. 041

Dear Office of the Secretary:

We appreciate the opportunity to share our views and provide input on the Public Company Accounting Oversight Board's (PCAOB or the Board) Proposing Release, *Firm and Engagement Metrics* (Proposal) outlined in its PCAOB Release No. 2024-002 (PCAOB Release).

Moss Adams LLP is the largest accounting and consulting firm headquartered in the western United States, with a staff over 4,300, including more than 400 partners. Founded in 1913, the firm serves public and private middle-market business, not-for-profit, and governmental organizations across the nation through specialized industry and service teams.

We appreciate the Board's efforts to provide stakeholders with decision-useful, consistent, and comparable information on which to evaluate audit firms and services to issuer. However, we have significant concerns with the scalability of the Proposal and the disproportionate impact on small to mid-size firms which are articulated along with other concerns in the next section of our letter.

Significant Concerns

Utility of Metrics and Impact to Smaller Firms

The Release fails to address the efficacy of each of the proposed metrics to stakeholders, in particular, investors in assessing audit quality. There is discussion within the Release of qualitative analysis but lacks a quantitative analysis which is critical given the significant costs by firms to comply. Consistent with our comments on QC 1000, *A Firm's System of Quality Control* and PCAOB Release No. 2024-003, *Firm Reporting*, we note the economic analysis in the Proposal fails to address the costs of compiling, reviewing, and reporting the various proposed disclosures against the benefits to audit quality and utility to stakeholders. Firms will have to invest in systems to accurately gather and track data, develop cut off procedures and calculations, and implement reporting and review processes to report each of the proposed metrics.

The compounding requirements from the various proposals add costs in terms of personnel, systems, and reporting that cannot simply be absorbed by firms. Firms with smaller issuer client bases have fewer clients, representing <2% of the capital markets, to spread such overhead costs thus increasing costs to the issuers as well as putting smaller firms at a competitive disadvantage when compared to the largest 6 firms which have a much larger practice with which to spread this cost over. In particular, the Proposal introduces a higher cost to practice in the public accounting space with a higher risk of enforcement actions for minor, unintentional errors without a corresponding and quantified benefit to investors and those charged with corporate governance. We believe the escalation of costs associated with the current proposals will cause a decline in the level of participation of smaller firms in auditing public companies which will have a corresponding negative impact on smaller issuers ability to obtain an auditor at a competitive rate and that it could raise barriers to entry into the capital markets.

As to this Release, we recommend the Board conduct additional research to evaluate the efficacy of each proposed metric; conduct outreach to registered firms, issues, and stakeholders to evaluate the costs and benefits of the proposed metrics considering the metric itself and the natural variability between firms and the needs of various stakeholders. Applying the requirements to all firms ignores the vast differences in firm portfolios and coverage of the capital markets. Imposing such intensive reporting (compounded by other standards) puts considerable strain on the firms that provide audit services to the 40% of issuers that represent the remaining <2% of capital markets.

Further, we recommend the Board evaluate the cumulative costs of this Proposal, PCAOB Release No. 2024-003, *Firm Reporting,* and QC 1000, *A Firm's System of Quality Control* how the requirements interact and the benefit to stakeholders. In terms of how the various disclosures enhance the PCAOB's regulatory function, each of the disclosures should be considered as to how individually or taken together provides information on a firm's ability to conduct quality audits.

Without quantitative economic analysis, we are concerned that this Proposal and the cumulative effect of others will heighten costs and barriers to serve issuers and undermine competition in the marketplace by increasing concentration in the marketplace to the largest firms without commiserate benefit on audit quality. A reduction in Firms that service the 2% of the markets could be detrimental to such issuers as a decrease in market competition which would disproportionally affect smaller issuers and further increase the concentration of public companies audited by the large international firms. Such requirements also present a high barrier to entry to any firm considering becoming a PCAOB registered firm. We strongly encourage scaling the required reporting and to consider the decision usefulness to the intended users for each requirement.

<u>Metrics without Context Introduces Potential for Misunderstanding</u>

Metrics, without appropriate context, fail to recognize the unique nature of companies, firms, and firms' engagements. Publicly available information, even with a 500-character explanation, fails to allow dialogue and understanding that is inherent in the audit committee and auditor relationship. While the Board's stated intention is to put information in the hands of the investor, the Proposal fails to tie the utility of the proposed metrics proposed in assessing audit quality via metrics alone, that is, no dialogue to determine context.

For example, the metric on industry experience of audit personnel leaves open the interpretation as to what constitutes a year of industry experience. One firm may consider an industry expert as serving as a signing partner for a private company in a particular industry. Whereas another firm may define industry expert as spending >50% of billable hours in a given year on SEC Issuers in that same industry. In such a scenario, the first firm's metric conveys having more industry expertise while the second firm may actually have more relevant experience in a particular industry but the second firm's more rigorous definition as to what constitutes industry expertise may drive a lower metric.

Legal Considerations with the Proposal

The Center for Audit Quality (CAQ), a nonpartisan public policy organization which serves as the voice of US public company auditors and matters related to the audits of public companies, responded to the Proposal as well. We support the comments of the CAQ, but wish to specifically cite our support for a few key views:

- Requiring public disclosure of certain proposed metrics could have competition-lessening effects.
- The PCAOB's statutory authority to require the reporting of the proposed metrics is not clear.
- Reporting of engagement-level metrics could be in tension with client confidentiality obligations.

We strongly encourage the Board's consideration of these comments.

Other Comments

Effective Date

Given the pace of change resulting from other standards from the PCAOB, we recommend an extension of the effective date to a point at least two years after SEC approval with an additional year for smaller firms.

Materiality

As proposed, there are no thresholds cited for metrics indicating an expectation of a high level of precision. While consistency and accuracy are critical to any reporting, publicly, to audit committees, or to the PCAOB, we recommend the PCAOB establish de minimis thresholds to the various metrics. Compliance, without a stated margin for error, adds to the costs to comply without commensurate benefit. Further, a firm's response to inspection findings and enforcement cases based on minor errors distract firm resources that could be otherwise focused on initiatives that would have a greater impact on audit quality.

Use of the Auditor's Report to Convey Metrics

We object to inclusion of firm-level and engagement-level metrics in the auditor's report. Given the limited timeframe to issues reports, we have serious concerns that firms could accurately gather and track data, perform cut off procedures and calculations, and conduct the appropriate reporting and review processes to include such information in the auditor's report. The auditor's focus at the issuance of reports should be on matters pertaining to the Issuer's financial statements, the auditor's report, and other documentation and communication procedures at the conclusion of an audit.

Metrics of Most Concern

We highlight the following metrics that are of most concern due to the lack of contextualization and, in some cases, impracticality of tracking.

- ***Industry Experience of Audit Personnel***

  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.

  This metric has a number of underlying issues that will complicate reporting and undermine comparability.

  - Auditors often have clients in multiple industries.

- Internal tracking of industry experience unlikely to capture experience for more senior personnel for an entire career.
- Tracking experience outside of the firm, whether another firm or previous outside experience, is imprecise and outside the control of the reporting firm.

- ***Quality Performance Ratings and Compensation***

  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.

  A firm's evaluation and assessment of quality and safety performance are unique to each firm; thus, comparability would be difficult to achieve.

- ***Retention and Tenure (engagement level)***

  Continuity of senior professionals (through departures, reassignments, etc.) on the engagement.

  Reporting at the engagement level lacks context and is most relevant to the company and its audit committee. There are a variety of factors, at the engagement level, which could impact tenure on an engagement that would not be conveyed through static figures (health or personal issues, resource constraints, need for additional expertise).

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We appreciate the opportunity to comment on the Proposal. As the Board gathers feedback from other interested parties, we would be pleased to discuss our comments or answer any questions that the Board may have regarding the views expressed in this letter. If you require further information regarding our response, please contact Laura Hyland, Senior Manager in our Professional Practice Group, at 206-748-4911 or by email at Laura.Hyland@mossadams.com or Michael Spencer, Partner in our Professional Practice Group, at 408-916-0589 or by e-mail at Michael.Spencer@mossadams.com.

Sincerely,

Moss Adams LLP