AICPA

June 18, 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; Proposing Release: Firm Reporting; PCAOB Rulemaking Docket Matter No. 055

Dear Office of the Secretary:

The American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Proposing Release on Firm and Engagement Metrics and Proposing Release on Firm Reporting (referenced herein as the proposed amendments or the proposals).

The AICPA is the world's largest member association representing the CPA profession, with more than 400,000 members in the United States and worldwide, and a history of serving the public interest since 1887. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting. The AICPA sets ethical standards for its members, U.S. auditing standards for private companies, not-for-profit organizations, and federal, state and local governments, and attestation standards. It develops and grades the Uniform CPA Examination, offers specialized credentials, builds the pipeline of future talent and drives continuing education to advance the vitality, relevance and quality of the profession.

In this letter, our focus is on the impact the proposals would have on mid-sized and smaller accounting firms, their respective clients and the ability for mid-sized and smaller companies to meet related audit requirements to have access to the US capital market. There is broad consensus within the profession that increased regulatory reporting disproportionately burdens smaller entities than larger ones. We believe that such a disproportionate impact will occur if the proposed amendments are enacted. This disproportionate burden is supported by the information in the proposals themselves, as well as our own data gathering. Specifically, the proposal states that mid-sized and smaller accounting firms, that serve small to mid-sized public companies, will incur substantial, if not prohibitive, costs in complying with the proposed amendments.[1]

[1] Proposal at 171 docket No. 041.

Further, the cost burden would likely accelerate the exit of mid-sized and smaller accounting firms from the public company audit market, based on survey data we have gathered and discussed further below and in Appendix 1. These firms play a crucial role in maintaining a competitive and diverse audit market for public companies and those seeking access to US capital markets, and the proposed amendments will serve to reduce competition and market diversity.

Over the past 18 months, we have heard from responsible firms that aim to perform high-quality audits that they are considering exiting from the performance of public company audits due to the significant requirements the PCAOB is adopting through its standard-setting and rule-making activities. This is a real concern because having a variety of firms of different sizes is imperative to creating healthy capital markets. Over the last two months, we conducted significant outreach to public accounting firms that currently audit U.S. listed entities in the small -mid cap market. This outreach, related polling and discussion, supports the PCAOB's statements in the proposals and our belief that the proposed amendments would disproportionately impose significant costs on mid-sized and smaller accounting firms. In our survey[2], all respondents who perform public company audits indicated that a very heavy or substantial effort would be required to report the proposed metrics. Compliance with the proposed additional firm reporting requirements, data collection, and analyses would strain their already limited resources. The proposed reporting of engagement-level and specific firm-level metrics, firm financial, governance, and network information, and expanded special reporting imposes fixed compliance costs on firms as they modify and expand internal systems and processes. Mid-sized and smaller firms lack the economies of scale that larger firms experience and will be less able to recover such costs. Challenges identified during the PCAOB's pilot program included changes to audit firm systems and processes to facilitate reporting[3], which further supports our observation.

The proposed amendments indicate a use of the proposed metrics by the PCAOB's inspection and enforcement program, thereby increasing the risk of enforcement for minor, unintentional errors in reporting. As stated in the proposal, "The proposed metrics would expand the basis on which selections are made. For example, the proposed metrics could improve the selection models used to aid in predicting negative audit outcomes, such as restatements or the potential for audit deficiencies." As such, mid-sized and smaller firms may find that the proposed metrics magnify an already demanding and active regulatory environment, further increasing their costs and risks.

Mid-sized and smaller firms contribute significantly to the public company audit market. Imposing the additional costs and risks associated with the proposed amendments on them, without clearly supported benefits will place excessive demands on them and consequently shrink the pool of public company auditors. Our survey[4] of accounting firms reveals that only 25% of respondents that perform public company audits would retain their public company audit practices if the proposals were adopted, irrespective of the confidentiality of the information. Consequently, the adoption of the proposals would ultimately lead to a concentration of audit services among a few large firms.

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[2] Refer to Appendix 1

[3] Proposal at 21 docket No. 041.

[4] Refer to Appendix 1

We believe that the PCAOB should thoroughly assess and carefully consider the impact that the proposed amendments will have on the ability of mid-sized and smaller accounting firms to continue to audit public companies. We are also concerned that the overall trend and cumulative effect of recent rulemaking, inspections, and enforcement is diminishing the attractiveness of the profession broadly. As the Board gathers feedback from other interested parties, I would be pleased to discuss our comments or answer questions regarding the views expressed in this letter.

Sincerely,

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Barbara Vanich, Chief Auditor

SEC
Paul Munter, Chief Accountant

Appendix 1
Summary of AICPA Survey of PCAOB Proposals

The AICPA developed a survey to assess the impact the proposals would have on mid-sized and smaller firms. The survey was distributed to the Top 500 CPA firms in the United States, excluding the Big 4. The AICPA received 88 responses[5].

Firm revenues	% of responses
<$10M	6.5%
$10-50M	41.5%
$51-100M	13.0%
$101-$250M	20.8%
$251-$500M	5.2%
$500M+	13.0%
	100.0%

Just over half of the respondents (51%) perform public company audits. The following table summarizes the number of public company audits firm respondents perform.

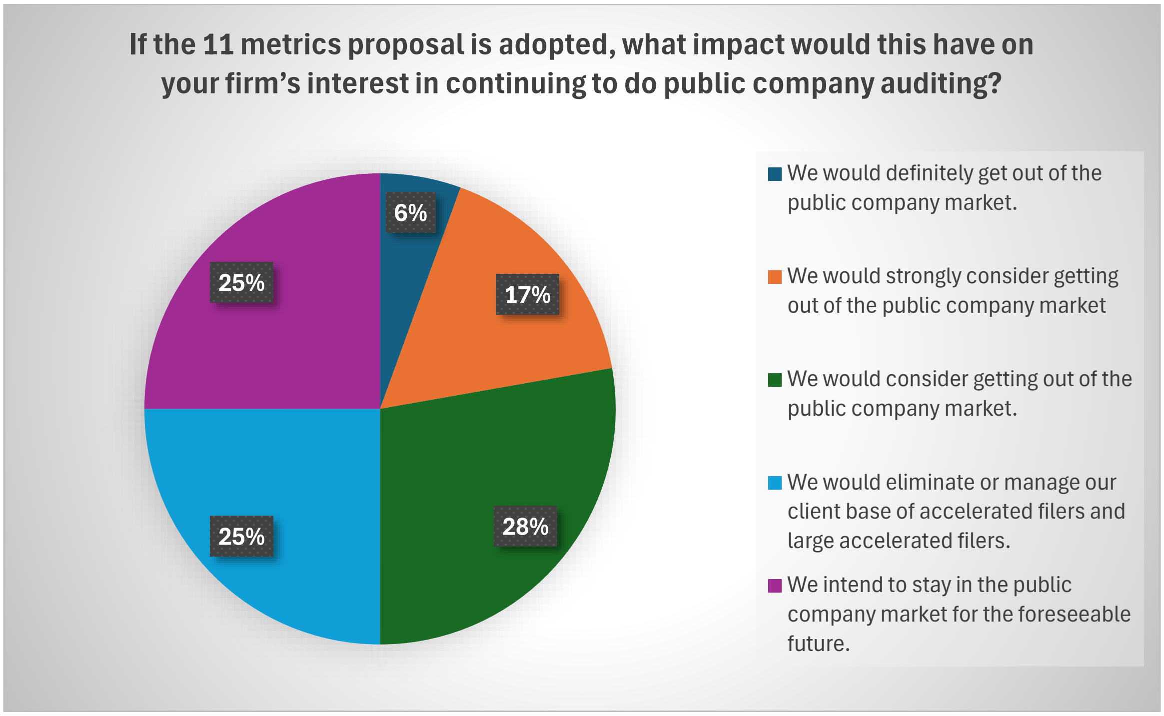
Number of public company audits firm performs	# of responses
<10	13
10-25	8
26-50	5
51-100	3
100+	5
Not specified	11
	45

Of the respondents that perform public company audits, 62% indicated that they perform audits of accelerated or large accelerated filers, which would be required to comply with the proposals if adopted. The following table summarizes the number of public company audits of accelerated or large filers firm respondents perform.

Number of public company audits of accelerated or large accelerated filers firm performs	# of responses
<10	20
10-25	4
26-50	-
51-100	-
100+	1
Not specified	3
	28

[5] Respondents that did not specify a response (11) have been removed from these percentages.

All the respondents that perform public company audits indicated that it would take a substantial (86%) or very heavy (14%) effort to report on the 11 metrics in the Firm and Engagement Metrics proposal. Firms were asked if the Firm and Engagement Metrics proposal was adopted, what impact that would have on continuing to perform public company audits. Most respondents that perform public company audits indicated that the adoption of the Firm and Engagement Metrics proposal would have a negative impact on mid-sized and small firm public company practice. The following chart summarizes the responses[6].



[6] Of the 45 respondents that perform public company audits, 36 responded to this question.