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August 6, 2026

By email: comments@pcaobus.org

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

RE: PCAOB Release No. 2026-005, Request for Public Comment on PCAOB Standard Setting

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's Release No. 2026-005 Request for Public Comment on PCAOB Standard Setting. We support the Board's mission to protect investors and enhance audit quality, and we are pleased to offer our perspectives on the PCAOB's future standard-setting activities.

We appreciate the Board's continued engagement with stakeholders as it considers the future direction of its standard-setting and research activities. Soliciting input at this stage provides an important opportunity for investors, audit committees, preparers, auditors, and other market participants to share perspectives on how PCAOB standards can remain clear, operable, scalable, and responsive to evolving risks. A transparent and inclusive process will support thoughtful prioritization and contribute to the development of standards that continue to promote investor confidence through audit quality.

The Appendix to this letter provides our detailed comments to questions included in this request for comment. In preparing our response, we have sought to minimize repetition of our May 14, 2026 response to PCAOB Release No. 2026-001, *Request for Public Comment: PCAOB Strategic Priorities*.[1]

We provide these observations as part of an ongoing dialogue and with a shared interest in supporting the PCAOB's ongoing effectiveness as a standard setter amid continued changes in markets, business practices, and technology.

Conceptual framework and the standard-setting process

We support the Board's consideration of the development of a principles-based conceptual framework to enhance the consistency, transparency, accountability, and durability of the PCAOB's standard-setting activities. The framework should guide decision-making throughout the standard-setting lifecycle, from agenda prioritization through post-implementation review, while remaining flexible and agile enough to respond to emerging issues and evolving risks. We also believe the framework should be supported by governance mechanisms that promote its continued application over time and provide transparency around any future modifications.

Further, the Board should continue to emphasize meaningful stakeholder engagement, rigorous economic analysis, appropriately calibrated comment periods and implementation timelines, and ongoing consideration of implementation experience and inspection observations. Together, these elements can

[1] PCAOB Release No. 2026-001, Request for Public Comment: PCAOB Strategic Priorities (May 14, 2026) - [Comment Letters] (Strategic Priorities comment letter)

help promote standards that are operable, scalable, responsive to investor needs, and capable of adapting to a changing audit environment.

Technology, including artificial intelligence

We support the Board's continued focus on technology, including artificial intelligence (AI), as an area of strategic importance to the audit profession and the broader financial reporting ecosystem. The rapid evolution and increasing use of AI across the financial reporting landscape heightens the importance of a thoughtful, agile, and forward-looking approach to standard setting that both promotes audit quality and enables responsible innovation.

At the same time, the breadth, complexity, and pace of change associated with AI present unique challenges for traditional standard-setting processes. AI is not a discrete topic that can be addressed through a single, comprehensive rulemaking effort; rather, it is a cross-cutting capability that impacts multiple aspects of financial reporting and auditing.

Establishment of an AI Task Force

The PCAOB should focus its data and technology research project on the implications of AI for the audit profession. While research will be a critical, foundational component for any future PCAOB actions in this area, the project should be supported by clear objectives and a structured plan to ensure meaningful progress in a rapidly evolving environment. The project should include ongoing engagement with key stakeholders, including investors, preparers, audit committees, auditors, technology providers, academics, and other standard setters and regulators to identify emerging risks, opportunities, and areas where existing requirements may require clarification or enhancement. The results of this work could inform future guidance, targeted standard-setting activities, and other regulatory responses as AI adoption and use cases continue to mature (please refer to further discussion of the recommendation in response to Questions 8-10).

To support this effort, we recommend the PCAOB establish a dedicated AI task force to coordinate research activities, monitor emerging developments, facilitate stakeholder engagement, and advise the Board on potential guidance and standard-setting priorities. We recommend the PCAOB consider elements of the U.S. Securities and Exchange Commission (SEC) Crypto Task Force,[2] which was able to efficiently address a similarly complex and wide-spanning topic in a relatively short period, producing a mixture of staff guidance and regulation recommendations. The PCAOB could also consider incorporating aspects of a working group model like the FASB's Emerging Issues Task Force,[3] which leverages diverse stakeholder perspectives to support research and analysis and provide recommendations for board consideration.

To be most effective, such a task force should include:

- **Governance and accountability**. Clear leadership, governance, timelines, and deliverables, including interim outputs, to promote transparency and accountability.
- **Topic-specific working groups**. Focused workstreams addressing discrete topics, such as the auditor's use of AI and the auditor's responsibilities when auditing management's use of AI, while maintaining overall coordination across related topics.

[2] SEC.gov | Crypto Task Force

[3] EITF

- **Stakeholder engagement**. Stakeholder engagement could include targeted requests for comment, public roundtables, or other structured discussions on defined issues, with clear objectives and expected outputs. Such a structure will support obtaining meaningful input and producing practical outcomes, such as guidance or standard-setting recommendations.
- **Coordination with other standard setters and regulators**. Given the interconnected nature of AI across financial reporting and internal controls, coordination with other standard setters, regulators, and organizations, such as the SEC, Committee of Sponsoring Organizations of the Treadway Commission, Financial Executives International, the International Auditing and Assurance Standards Board (IAASB), the American Institute of CPAs (AICPA), and the U.K. Financial Reporting Council (FRC), will be critical. The PCAOB should also consider opportunities to promote alignment between expectations for management's use of AI and auditors' related responsibilities.

This structure would enhance the Board's ability to respond efficiently to emerging risks while maintaining appropriate oversight and stakeholder confidence.

We believe an imperative objective of the Board should be to align the PCAOB's requirements for auditors and management's requirements either established by their internal control framework or by the SEC. For example, expectations regarding the reliability and evaluation of AI-generated outputs, including the extent of necessary human oversight and acceptable degrees of error tolerance, should be conceptually aligned across the internal control requirements, internal control frameworks, auditing standards, and auditors' quality control requirements.

<u>Future standard-setting priorities</u>

Beyond technology and AI, the Board should continue to focus its standard-setting agenda on areas that are most likely to enhance audit quality, address significant risks in modern audits, and improve the operability and consistency of the auditing framework. We support prioritizing modernization of standards related to fraud, noncompliance with laws and regulations, auditor independence, and selected interim standards that have not kept pace with changes in business practices, technology, and related regulatory frameworks.

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We appreciate the Board's engagement and the opportunity to share our perspectives on the areas for which the Board requested feedback. We welcome further dialogue with the Board and its staff on any of the matters discussed herein.

Sincerely,

KPMG LLP

KPMG LLP

cc:

PCAOB

Demetrios (Jim) Logothetis, Chairman
George R. Botic, Board Member
Steven D. Laughton, Board Member
Mark A. Calabria, Board Member

U.S. Securities and Exchange Commission

Paul S. Atkins, Chairman
Hester M. Peirce, Commissioner
Mark T. Uyeda, Commissioner
Kurt Hohl, Chief Accountant
Michal Dusza, Deputy Chief Accountant

Appendix

Standard-Setting and Research Activities

<u>Determining Standard-Setting and Research Priorities</u>

Question 1 – Do you believe that the PCAOB should focus our standard-setting and research activities in areas discussed in the table above? How would you approach these areas (e.g., conduct further research, issue staff guidance, or advance to standard setting)? How would you prioritize these areas? Are there areas not listed in the table above that the PCAOB should prioritize?

Question 2 – Do you have any views not previously shared regarding the scope and objectives of potential standard setting or research in areas discussed in the table above? If yes, what specifically should the PCAOB focus on in each of these areas?

Question 3 – In areas where you believe issuing staff guidance would be preferable to amending PCAOB standards, what matters should guidance specifically address?

Our responses to Questions 1 through 3 address the standard-setting and research activities identified in the table included in the request for comment, and include our views on the appropriate approach and relative prioritization for those areas. In addition, as part of our response to Question 4, we have identified other areas for which we suggest the PCAOB consider standard setting, research, or guidance as part of its broader modernization and prioritization efforts.

<u>Data and technology</u>

This topic is the area with the highest priority. Given the rapid pace of change and the broad range of technology affecting the financial reporting ecosystem, the central focus when modernizing and updating existing standards and developing new requirements should be on monitoring developments, identifying emerging risks and opportunities, and determining where additional clarity may be needed over time.

In the very near term, staff guidance, supported by continued research and monitoring, is preferable to standard setting. We suggest guidance in this area address how auditors should apply existing standards when using technology-assisted tools, AI, automated procedures, and externally generated or model-based information, which could also increase the consistency in application of existing standards across the profession and alignment of audit execution with the Board's expectations.

<u>Fraud</u>

Modernizing Auditing Standard (AS) 2401, *Consideration of Fraud in a Financial Statement Audit*, should be a high-priority standard-setting project. The standard should better integrate fraud considerations throughout the audit process, reflect evolving business models, and promote more consistent application.

In updating AS 2401, we encourage the PCAOB to consider the structure and core concepts of International Standard on Auditing (ISA) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, and the AICPA Auditing Standards Board's (ASB) AU-C 240, while tailoring any requirements to U.S. public company audits. Areas for consideration include reinforcing a continuous fraud lens throughout the audit and enhancing documentation requirements to provide a clearer and more explicit linkage between identified fraud risks, the auditor's response, evidence obtained, and conclusions reached.

Noncompliance with laws and regulations

The PCAOB should prioritize targeted standard setting related to noncompliance with laws and regulations (NOCLAR). The current standard on illegal acts would benefit from modernization to reflect evolving business and regulatory environments while reinforcing professional skepticism. In revisiting this topic, we recommend the Board consider feedback received on the withdrawn NOCLAR proposal and seek convergence, where appropriate, with ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, and AU-C 250.

Any updated standard should clearly define the auditor's responsibilities and remain focused on matters that could reasonably have a material effect on the financial statements. Areas for consideration include:

- replacing the current focus on "illegal acts" with a NOCLAR-based approach, while recognizing the interaction with fraud-related risks;
- applying a risk-based approach to identifying laws and regulations that could reasonably have a material effect on the financial statements;
- integrating NOCLAR considerations into the auditor's risk assessment process; and
- clarifying the auditor's responsibilities when potential noncompliance is identified, including recognizing that determining whether a legal violation has occurred is generally beyond the auditor's expertise and will often require consideration of findings and conclusions of qualified legal counsel.

Given the significant overlap between fraud risks and NOCLAR, we encourage the Board to pursue these projects concurrently to promote consistency across the standards and address the interaction between fraud, risk assessment, and NOCLAR in a coordinated and holistic manner.

Auditor independence

The PCAOB should prioritize modernization of its ethics and independence framework, including the interim independence standards. Many of these requirements were adopted in 2003 with the expectation that they would be revisited and updated. Since then, the SEC independence frameworks have evolved significantly, while the PCAOB's interim standards have remained largely unchanged. As a result, the current framework includes outdated provisions, unnecessary duplication, and potential inconsistencies with related independence requirements.

In evaluating potential updates, the Board should recognize that the PCAOB's independence framework operates alongside SEC independence requirements. We recommend that the PCAOB undertake a comprehensive review of its independence requirements with the objectives of:

- Evaluating if the interim independence standards and other PCAOB independence rules that are outdated or redundant with SEC requirements, thereby reducing regulatory complexity and unnecessary duplication;[4]

[4] See PCAOB Rule 3500T, *Interim Ethical and Independence Standards*; ET Section 101, *Independence*; ET Section 191, *Ethics Rulings on Independence, Integrity and Objectivity*; Independence Standards Board (ISB) No. 2, *Certain Independence Implications of Audits of Mutual Funds and Related Entities*; ISB No. 3, *Employment with Audit Clients*; ISB No. 99-1, *Impact on Auditor Independence of Assisting Clients in the Implementation of FAS 133 (Derivatives and Hedging Activities)*; PCAOB Rule 3521, *Contingent Fees*, and the related definition in PCAOB Rule 3501(c)(ii), *Definition of Contingent Fee*; PCAOB Rule 3524, *Audit Committee Pre-Approval of Certain Tax Services*; and PCAOB Rule 3525, *Audit Committee Pre-Approval of Non-Audit Services Related to Internal Control Over Financial Reporting*.

- retaining PCAOB independence principles and definitions that provide incremental protection or clarity beyond the SEC framework and remain decision-useful to investors;[5]
- streamlining audit committee communication requirements[6] by incorporating duplicative independence communication requirements into AS 1301, *Communications with Audit Committees*, rather than maintaining separate stand-alone requirements.

A comprehensive review would help modernize the PCAOB's independence framework, improve operability, reduce unnecessary complexity, and better align regulatory requirements with current practice while maintaining a strong focus on auditor objectivity and investor protection. Given the interconnected nature of these requirements, a coordinated modernization project would be more effective than a series of separate, incremental projects.

<u>Critical audit matters</u>

We recognize that the critical audit matters (CAMs) framework represents an important aspect of auditor reporting and is an area of continued interest to investors, audit committees, and other stakeholders. At the same time, the current framework has largely achieved its intended objectives and is being applied with an appropriate degree of consistency in practice. Based on that consistency and the significance of the higher priority projects discussed above, we do not believe CAMs should be a priority for standard setting or research at this time, and we do not recommend revisions to AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. If the Board decides to revisit this topic, we encourage it to first complete a post-implementation review of CAMs. Any subsequent changes should be supported by clearly articulated investor or market objectives that are not already contemplated by the existing framework.

In doing so, the Board should carefully consider the original policy decisions underlying AS 3101 and the unique characteristics of the U.S. regulatory environment, such as the principle that management remains responsible for providing original information about the company and the Board's objective of enhancing auditor reporting without expanding auditor responsibilities beyond auditors’ expertise or mandate.

<u>Firm and engagement performance metrics</u>

We support efforts to enhance transparency regarding audit quality and to provide investors, audit committees, and other stakeholders with decision-useful information that facilitates more informed evaluations of audit performance. However, we do not believe the area of firm and engagement performance metrics is sufficiently mature for standard setting. Before advancing reporting requirements, the Board should first establish a principles-based framework for audit quality and demonstrate how any proposed metrics are linked to, and provide meaningful insight into, audit quality. The Board should also determine whether the costs of such reporting can be appropriately managed prior to a rule proposal. The PCAOB should also consider pilot programs or confidential reporting initiatives that would allow for testing, evaluation, and refinement of potential metrics in a controlled environment. We also believe further research and engagement with regulators that have experience with AQI frameworks would be beneficial.

[5] PCAOB Rule 3501, *Definitions*, other than Rule 3501(c)(ii), *Definition of Contingent Fee*; PCAOB Rule 3520, *Auditor Independence* (General Rule); PCAOB Rule 3522, *Tax Transactions* (Confidential and Aggressive Tax Position Transactions); and PCAOB Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*.

[6] PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*

We remain concerned that many firm and engagement performance metrics can be difficult to interpret in isolation and may not be decision-useful without substantial context. These concerns may become more significant as evolving technologies continue to change how audits are planned and performed.

Many of the objectives associated with engagement-level metrics may be better achieved through enhanced communications with audit committees rather than public reporting requirements, recognizing that audit committees act on behalf of investors and are positioned to translate engagement-specific context into effective oversight in investors' interest. Audit committees are responsible for oversight of the audit and are generally best positioned to evaluate engagement-specific metrics because they have the necessary context regarding the company, the audit, and related risks. Additionally, a standardized set of engagement-level metrics may not be decision-useful in all circumstances, and we support retaining audit committees' flexibility to focus on the information audit committee members believe is most relevant. Consistent with our comments in response to Question 4 regarding audit committee communications, we encourage the PCAOB to consider whether additional engagement-specific information would be more effectively communicated through a focused and decision-useful dialogue between the auditor and audit committee.

Question 4 – In addition to performing standard-setting or research activities in the potential focus areas, should the PCAOB undertake modernization of the remaining "interim" PCAOB standards (including those discussed by commenters, e.g., going concern, inventory, use of service organizations, use of internal auditors)? If the standards were to be updated on an individual basis, which standards should we prioritize?

The PCAOB should continue modernizing the remaining interim standards where the existing requirements are outdated, no longer aligned with related accounting or auditing frameworks, or not well adapted to technology-enabled audit environments and evolving firm and entity operating models. In prioritizing individual standards, we recommend the Board focus first on areas that have a direct effect on audit quality, are frequently encountered in public company audits, and create recurring practice challenges. We would prioritize them in the following order.

<u>Service organizations</u>

AS 2601, *Consideration of an Entity's Use of a Service Organization*, should be prioritized for modernization. The increasing reliance on service organizations in public company audits, particularly in integrated audits, has heightened the importance of clear requirements for how user auditors evaluate third-party controls and service auditor reports.

In practice, most SOC reports are prepared under AICPA attestation standards, and the quality of those examinations may vary based on the competence and qualifications of the service auditor and the standards they applied. Rather than prescribing requirements for service auditors, the current PCAOB standard should provide further clarity regarding how a user auditor should evaluate the service auditor, the work performed, or the resulting report. Updating AS 2601 would promote more consistent and rigorous evaluation of service auditor reports. We also increasingly observe entities obtaining forms of third-party certifications and reports that are not SOC reports. The Board could provide greater clarity regarding whether, and under what circumstances, auditors may use such information and the auditor's responsibilities when doing so.

Practice challenges also reflect uncertainty about when a third-party provider should be treated as a service organization under AS 2601 rather than an external information source under AS 1105, *Audit Evidence*. This distinction affects both management's controls and the nature and extent of audit procedures, particularly in technology-enabled environments that rely on third-party platforms, system-generated information, and emerging technologies. See further discussion regarding information received from third parties below.

In updating AS 2601, we recommend that the PCAOB use AU-C 402, *Audit Considerations Relating to an Entity Using a Service Organization*, as a starting point as it more clearly focuses on the user auditor's responsibilities. Requirements should then be tailored to address PCAOB-specific considerations, including the role of SOC reports in integrated audits and the implications for internal control over financial reporting (ICFR) opinions.

We recommend updates to AS 2601 that would:

- clarify the user auditor's responsibilities when an entity uses a service organization or relies on a service auditor's report, including strengthening expectations for evaluating the service auditor's competence, capabilities and qualifications, and the standards applied;
- differentiate between SOC reports and agreed-upon procedures reports, or other types of reporting or certifications, recognizing that they serve different purposes and require different evaluation considerations;
- update terminology to align with current AICPA attestation standards, for example, aligning the descriptions of the various types of SOC reports with AU-C section 402 and AT-C section 320 (such as management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design of controls (commonly referred to as a type 1 report) instead of reports on controls placed in operation);
- remove provisions that imply service auditors must perform their work under PCAOB standards;
- enhance guidance on substantive testing considerations when an entity uses a service organization, such as considerations around when a user auditor may need to perform substantive testing at the service organization or engage another auditor to do so.

We also encourage the Board to coordinate efforts with the ASB to enhance the AICPA attestation standards that apply to examining controls at a service organization. The number of service organizations involved in and the magnitude of their impact on issuer and broker-dealer ICFR continues to expand, which increases the importance of quality auditor attestation services. Further, we encourage the PCAOB to collaborate with the AICPA to enhance the number and rigor of peer review inspections of service organization examination engagements. We have recently observed the proliferation of service providers offering SOC reports at very low cost that raises concerns whether sufficient work is done to support the conclusions in the reports.

<u>Auditor reporting and communications (including Form AP)</u>

Audit committee communications

Our experience with audit committees suggests that certain of the current required communications do not align with information that audit committees find important. Accordingly, the PCAOB should consider whether existing audit committee communication requirements can be made more focused and decision-useful. Some required communications may not be relevant to a particular audit or may have little substance, which can detract from more significant audit-specific matters. We encourage continued outreach to audit committee members and other stakeholders to assess whether the requirements remain aligned with evolving business practices, technology, and stakeholder needs. Greater flexibility to tailor communications to the matters most relevant to the audit committee could enhance the effectiveness of auditor-audit committee dialogue and support audit quality.

Form AP post-implementation review

A post-implementation review of Form AP is appropriate. Based on our experience with the reporting requirements, we suggest the Board consider the following matters and determine the most appropriate mechanism for addressing them, whether through targeted standard setting, interpretive guidance, or other clarifications.

- Incorporate a materiality threshold to make Form AP disclosures more decision-useful and cost effective by focusing on information that is meaningful to stakeholders.
- Revisit and clarify the “precisely the same audit report” requirement in Rule 3211. As currently interpreted, conforming updates to audit reports, such as changes to auditor tenure or the removal of CAM or ICFR language in predecessor auditor scenarios, may result in additional Form AP filings even when no additional audit procedures were performed and the report was not dual-dated. Clarification could reduce duplicative filings and information overload without reducing useful transparency.
- Provide clearer guidance on how to evaluate hours associated with secondees, shared service centers, and loan staffing arrangements as firm and employment structures continue to evolve.
- Clarify how hours related to quality control activities should be treated following the implementation of QC 1000 given that SEC Practice Section 1000.45 Appendix K is no longer in effect. Hours for comparable quality control activities should continue to be excluded from total audit hours.

Information received from third parties

As business models, technology, and financial reporting processes continue to evolve, both management and auditors increasingly rely on information generated, processed, maintained, and/or provided by third parties. The Board should proactively address emerging practice challenges through application guidance, interpretive materials, and/or illustrative examples. Such guidance should address application in technology-enabled environments involving system-generated reports, information used and produced by AI solutions, distributed ledgers, model-based outputs, and third-party platforms.

To address these emerging practice issues, guidance would be beneficial in areas such as:

- **Audit evidence (AS 1105).** Clarify the framework for evaluating third-party information, including how to distinguish external information sources from service organizations, evaluate source reliability, and determine when direct testing procedures are necessary.
- **Service organizations (AS 2601).** Clarify when the standard applies to third-party-provided data, processing, or model-based outputs, and align it with AS 1105 and AS 2201 for an integrated evaluation of internal and external information, third-party processing, and control reliance.

Following additional outreach and evaluation of evolving practices, the Board should consider whether targeted standard-setting activities are warranted. In doing so, it should consider ISA 500, *Audit Evidence*, and any updates currently being contemplated by the IAASB, and AU-C 500, as appropriate, as useful reference points for evaluating external information.

Going concern

AS 2415, *Consideration of an Entity’s Ability to Continue as a Going Concern*, should be prioritized for targeted modernization to better align the auditor's responsibilities under the auditing standards with management's responsibilities under the accounting standards and enhance clarity and consistency. The standard has not been updated to reflect subsequent developments in the accounting and auditing frameworks, including FASB Accounting Standards Update No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40)*, and more recent changes to IAASB and AICPA standards.

In updating AS 2415, we recommend that the PCAOB use the ASB framework as its primary reference point given its alignment with U.S. accounting standards and the principle that management performs the going concern assessment and the auditor evaluates that assessment. While certain concepts in the IAASB standard may be informative, any updates should be tailored to the U.S. public company environment and avoid expanding auditor responsibilities beyond what is appropriate.

Rather than a wholesale redesign, we recommend targeted updates that:

- increase convergence with the AICPA going concern standard, as expected to be revised, including alignment with the predominant accounting standards and a clearer focus on auditing management's assessment of the entity's ability to continue as a going concern;
- stronger integration of going concern considerations into the auditor's risk assessment procedures, to promote earlier identification of events or conditions that may raise substantial doubt;
- enhance guidance on (i) evaluating management's methods, data, and assumptions underlying management's plans when events and conditions exist that raise substantial doubt, (ii) evaluating management's intent and ability to implement the plans, and (iii) addressing potential management bias, when there is a risk of material misstatement related to going concern.
- Clarify the auditor's responsibilities in interim reviews, recognizing their increasing importance in public company reporting.

<u>Substantive analytical procedures</u>

We suggest the Board re-propose amendments to AS 2305, *Substantive Analytical Procedures,* to modernize the standard. Analytical procedure capabilities have changed significantly with the increased use of technology-assisted analysis, advanced statistical techniques, and emerging data science capabilities. Modernization should focus on enhancing the relevance and flexibility of the framework without introducing prescriptive requirements that could limit innovation or become outdated as technologies and audit methodologies continue to evolve.

AS 2305 does not require fundamental restructuring. Rather, the PCAOB should make targeted improvements to clarify how modern substantive analytical procedures may be designed and evaluated within a principles-based auditing framework. These updates should acknowledge the use of disaggregated analyses, statistical methods, correlation analyses, non-monetary information, and technology-assisted tools, while preserving the auditor's responsibility to establish an appropriate threshold for evaluating differences between the auditor's expectation and the recorded amount. The PCAOB should also consider any updates to ISA 520, *Analytical Procedures*, currently being contemplated by the IAASB, as appropriate.

Beyond modernizing specific requirements, the PCAOB should consider how technological advancements are reshaping the execution of audit procedures more broadly. The IAASB's work on audit evidence and technology recognizes that emerging tools increasingly blur the lines between traditional categories of audit procedures, such as risk assessment procedures, tests of details, and substantive analytical procedures. Addressing this issue in PCAOB standards would help foster continued innovation by allowing technology-enabled procedures to be evaluated based on whether they achieve the intended audit objective, rather than whether they fit squarely within a legacy procedural category.

Inventory

We recommend the PCAOB initiate standard setting to address the use of technology in obtaining audit evidence for inventory. This topic has been the subject of recurring inspection findings across the profession and reflects an area where existing standards would benefit from modernization. Companies increasingly use technologies such as drones, scan guns, geofencing, highly automated warehouses, and other technology-enabled inventory procedures, and auditors are adapting their procedures in response. Updating AS 2510, *Auditing Inventories*, to address appropriate uses of technology by both companies and auditors would promote more consistent application and support audit quality as inventory practices continue to evolve.

Attestation standards

The PCAOB's interim attestation standards[7] should be reconsidered. These standards are based on legacy AICPA attestation standards that have since been substantially modernized. In addition, except for broker-dealer engagements addressed by PCAOB attestation standards, most attestation engagements are generally outside the PCAOB's jurisdiction. As a result, continued reliance on the interim attestation standards may create confusion regarding the applicable authoritative guidance.

We recommend the Board rescind the interim attestation standards in their entirety and acknowledge that attestation engagements outside the PCAOB's jurisdiction are subject to standards issued by other standard setters, such as the ASB. Rescission would eliminate outdated requirements and reduce uncertainty for PCAOB-registered firms.

If the Board does not pursue rescission, we recommend replacing the interim standards with standards converged with the AICPA attestation standards (AT-Cs), rather than attempting to update the legacy interim framework. The AT-Cs provide a more modern and comprehensive framework and would promote greater consistency and quality in attestation engagements. This approach would result in an immediate improvement in the quality of the attestation standards should the Board believe retaining such standards is necessary.

Question 5 – Some users of PCAOB standards have expressed concern about the accelerated pace of standard setting and length of comment periods to react to proposals. What would be the preferred length of comment periods to enable stakeholders to fully analyze and respond to proposals? What factors should be taken into account when determining the length of the comment period?

The length of the comment period should be commensurate with the significance, complexity, and expected impact of the proposal. Meaningful stakeholder participation is a critical component of the PCAOB's due process, and stakeholders should have sufficient time to fully evaluate proposals, assess implementation implications, and provide thoughtful feedback.

In determining the appropriate comment period, the PCAOB should consider factors such as the complexity and scope of the proposal, the extent of change from existing practice, anticipated

[7] Including AT Section 101, *Attest Engagements*; AT Section 201, *Agreed-Upon Procedures Engagements*; AT Section 301, *Financial Forecasts and Projections*; AT Section 401, *Reporting on Pro Forma Financial Information*; AT Section 601, *Compliance Attestation*; and AT Section 701, *Management's Discussion and Analysis*.

implementation costs and operational implications, the need for stakeholder outreach and field testing, and coordination across global networks and jurisdictions. The Board should also consider the cumulative burden of overlapping regulatory initiatives. While 60 to 90 days may be sufficient for targeted amendments, proposals involving significant methodology, reporting, technology, quality control, or operational changes should generally provide at least 120 days, and longer when warranted.

We also encourage the PCAOB to engage stakeholders early through agenda consultations, concept releases, roundtables, advisory groups, task forces, and other outreach activities. Stakeholder involvement throughout the entire standard-setting lifecycle can improve understanding of the Board's intentions and may enable a shorter comment period to achieve the due process objectives. Early engagement can improve the quality of proposals, reduce implementation challenges, and allow formal comment periods to focus on refining requirements rather than identifying fundamental concerns.

Finally, the pace of standard setting should allow stakeholders sufficient time to evaluate proposals both individually and collectively, including their interaction with existing standards and other Board initiatives. A deliberate and transparent process that incorporates robust stakeholder feedback will help promote standards that are effective, operable, and responsive to investor needs.

Question 6 – When setting the effective dates of new standards, what factors should be taken into account to provide a sufficient period of time for implementation? Recognizing that implementation timelines will vary depending on the nature and complexity of a standard, what range of time do firms typically need to implement a new standard, including updating audit methodologies and technological resources and training staff?

The PCAOB should establish effective dates based on the nature, complexity, and operational impact of a standard, informed by stakeholder outreach throughout the standard-setting process. In determining implementation timelines, the Board should consider the full range of activities required to operationalize a new standard, including methodology updates, technology development and testing, governance and quality control enhancements, training, and coordination across global firms and networks. Consideration should also be given to implementation cycles, competing regulatory initiatives, and the cumulative demands placed on firms and other stakeholders.

More targeted amendments may be implemented relatively quickly, while standards involving significant process changes, new reporting requirements, substantial technology modifications, or extensive methodology and training updates may require 18 to 24 months or longer to implement effectively. In setting timelines, the Board should also weigh the investor-protection benefit of timely implementation against implementation risk, so that runway is calibrated rather than defaulted to the longest feasible period. The PCAOB should also consider whether tools such as phased implementation, staggered effective dates, pilot programs, staff guidance, or FAQs could facilitate consistent adoption and reduce implementation risk.

Question 7 – When prioritizing potential standard-setting or research projects, including those outlined above, how and to what degree should the PCAOB consider economic benefits, costs, competitive effects, and unintended consequences? Should such analyses involve an assessment of how any regulatory action may affect smaller firms, including potential barriers to entry or scalability concerns?

A thorough economic analysis should be a fundamental component of both project prioritization and standard-setting decisions. The PCAOB should carefully evaluate the anticipated benefits of any proposal alongside the direct and indirect costs borne by firms, investors, issuers, and audit committees. Such analysis should extend beyond compliance costs to consider impacts on audit quality, competition, scalability, implementation complexity, technology investments, and the potential for unintended consequences, including how reported information may be interpreted and used by stakeholders.

Economic analysis should also evaluate whether a regulatory action is likely to achieve its intended objectives in a cost-effective manner and whether alternative approaches, such as guidance or targeted amendments, could achieve similar outcomes more efficiently. These assessments should occur both when the Board prioritizes potential projects and before any project advances from the research stage into formal standard setting.

Attention should be given to how regulatory actions may affect smaller firms, non-U.S. firms, component auditors, and global networks. While investor protection objectives should not vary based on firm size, the costs and operational implications of new requirements may differ significantly across firms. Increased reporting or compliance obligations may create barriers to entry, discourage participation in issuer or broker-dealer audits, or contribute to further concentration within the audit market. Economic analyses should therefore explicitly evaluate competitive effects, scalability considerations, and market concentration risks.

Finally, the Board should consider whether regulatory requirements could unintentionally divert resources from activities that most directly enhance audit quality, including investments in personnel, training, quality control systems, and technology. A robust, evidence-based economic analysis that considers both benefits and potential unintended consequences will help ensure that projects are appropriately prioritized and that resulting standards effectively advance the PCAOB's investor protection mission.

Data and Technology

Question 8 – In your view, should the PCAOB pursue standard setting and research to address the matters previously identified by commenters (e.g., addressing the impact of the use of AI on identifying and assessing the risk of material misstatement, auditing internal controls, determining what constitutes sufficient appropriate audit evidence documentation, supervision, and governance of AI-enabled tools)? Alternatively, are these matters best addressed through the issuance of staff guidance?

Question 9 – In light of rapid advancements in data and technology, including AI, are there additional matters the PCAOB should consider addressing?

Question 10 – Are there specific areas of the PCAOB's current standards that you believe are not fit for purpose in an AI environment? If so, what are those areas and what changes may be necessary to address the impact of AI on auditing?

As noted above, the establishment of an AI Task Force, modeled after aspects of the SEC's Crypto Task Force and the FASB's EITF, and their related stakeholder working groups, would provide appropriate recommendations to the PCAOB on whether staff guidance or standard setting is more appropriate for each individual topic. There is likely not one best approach in this complex area.

The list included in Question 8 is an appropriate inventory of the most critical areas to be considered by the Board. While certain standards may warrant more immediate consideration based on current AI use cases, the Board should recognize that the areas affected by AI are likely to expand over time as the technology continues to evolve and its applications become more widespread.

Question 11 – Do you believe there is a need for the PCAOB to address this topic? If so, should the PCAOB pursue standard setting and research to address matters related to auditing digital assets (e.g., access, ownership, control, and existence when held by a third party)? Alternatively, are these matters best addressed through the issuance of staff guidance? In addition to matters discussed in comments provided on the Strategic Priorities RFC, what questions should be specifically addressed through either guidance or standard setting?

Yes, the PCAOB should address auditing considerations related to digital assets. Consistent with our response to Question 1 regarding data and technology and our Strategic Priorities comment letter, near-term staff guidance, interpretive materials, and/or FAQs may be the most effective way to promote consistent application of existing standards in this evolving area. Continued engagement with stakeholders will be important to monitor emerging practices and risks and to assess whether formal standard setting becomes necessary over time. If the PCAOB later pursues standard setting, any requirements should remain principles-based and sufficiently flexible to address matters such as access, ownership, control, existence, custody arrangements, and third-party involvement without becoming overly prescriptive, which could lead to requirements becoming quickly outdated.

In developing its approach, we recommend the Board consider and leverage existing non-authoritative guidance developed by other organizations (for example, the AICPA practice aid, *Accounting for and auditing of Digital Assets*[8]) that is currently used in practice to promote consistency and avoid duplication.

Alignment between auditing requirements and the responsibilities of management is particularly important in this space. A more holistic approach, coordinated with other regulatory bodies such as the SEC, would help ensure that auditor expectations do not outpace established practices, and would support a consistent and practical application of requirements across the ecosystem.

While existing auditing standards generally provide an adequate foundation for audits involving digital assets, the following examples represent areas where additional guidance may help support more consistent application of existing standards as practices and risks continue to evolve.

- **Reliability of blockchain information as audit evidence.** Guidance on evaluating the unique characteristics of blockchains and distributed ledger technology may be appropriate, including how existing auditing standards related to audit evidence apply to information obtained from a blockchain and how auditors should assess the reliability of information in this context**.**
- **Application of AS 2301.17 to digital assets and distributed ledger technology**. Further guidance may be appropriate to address how to apply AS 2301, *The Auditor's Responses to Risks of Material Misstatement*, paragraph .17 when determining whether substantive procedures alone can provide sufficient appropriate audit evidence for relevant assertion(s) or whether tests of controls must be performed. Additional guidance would be helpful on how the standard applies when information supporting one or more relevant assertions is electronically initiated, recorded, processed, or reported through distributed ledger technology, particularly where the underlying protocols are independently validated by networks and are not readily altered without majority consensus. Clarification in this area would promote more consistent application of the standards when auditors evaluate the sufficiency and appropriateness of audit evidence and the role of internal controls over the accuracy and completeness of such information.

[8] See Accounting for and Auditing of Digital Assets Practice Aid (PDF) | Resources | AICPA & CIMA.

- **Audit procedures related to smart contracts**. Guidance on the nature and extent of audit procedures that may be appropriate when smart contracts are relevant to the financial statements and/or internal control over financial reporting would be helpful.

Approach to Standard Setting

Question 12 – Should we develop and adopt a conceptual framework for PCAOB standard setting? What would be the advantages and disadvantages of establishing such a framework?

We support the Board's consideration of the development and adoption of a conceptual framework for standard setting. However, its effectiveness will depend significantly on its design. The framework should have sufficient permanence to promote durability, accountability, and consistency over time. For example, incorporating such a framework into the PCAOB's bylaws or other governance mechanisms would help ensure the framework remains an enduring guide to standard-setting activities and provide transparency around any future modifications. At the same time, the development of the framework should be balanced with the Board's ongoing standard-setting responsibilities and priorities.

The experience of the IAASB, the FRC, and the FASB illustrates both the value and the practical challenge of a conceptual framework. The IAASB has a Framework for Activities describing its approach to information gathering and research, developing or revising standards, narrow-scope maintenance, and implementation support. The FRC also maintains materials addressing the scope and authority of audit and assurance pronouncements. These materials may provide useful reference points to leverage. The FASB conceptual framework, while primarily about content and principles underlying accounting standards rather than the procedural mechanics of how standards are developed, is described by the FASB as providing a foundation for setting standards, narrowing the range of alternatives, improving consistency and efficiency, and reducing the need to redebate fundamental issues repeatedly. At the same time, the FASB's framework has developed over decades. That history demonstrates that a comprehensive conceptual framework can be highly valuable, but it is also a substantial long-term undertaking rather than a near-term process improvement.

We acknowledge that establishing a conceptual framework presents certain challenges, including the risk that it becomes overly detailed or prescriptive and the resources required for its maintenance and development. However, these challenges can be effectively managed through careful design, a principles-based approach, and appropriate scalability in application.

Question 13 – What qualitative characteristics should be considered when developing PCAOB standards that could be included in a new framework?

We recommend that qualitative characteristics serve as a disciplined lens through which the Board assesses the need for and develops new standards and evaluates the continued relevance and effectiveness of existing standards. These characteristics should guide judgment rather than operate as a checklist.

Examples of characteristics that could be considered include the following.

- **Investor-protection and public interest relevance**. Standards should demonstrably advance the reliability of audit reports, audit quality, and investor confidence in U.S. public company and broker-dealer reporting.
- **Clarity of objective**. Standard-setting activities should be clearly linked to identified audit-quality issues, investor-protection concerns, or other well-defined problems. Before initiating a project, the Board should clearly articulate the issue to be addressed and the public interest rationale for action. A clear statement of the problem at the outset promotes transparency, enables a more

targeted and disciplined standard-setting process, facilitates meaningful stakeholder feedback, and provides an appropriate basis for evaluating whether a proposed solution is likely to achieve its intended outcome.

- **Risk focus.** Requirements should direct auditor effort to matters that present risks of material misstatement or otherwise affect the reliability of the auditors' report, while avoiding compliance activities that do not produce commensurate audit-quality benefits.
- **Transparency.** The Board should maintain a two-way dialogue throughout the standard-setting lifecycle that provides stakeholders with visibility into the process, including the rationale for projects, the evidence supporting proposals, alternatives considered, and how stakeholder comments and feedback are evaluated. Greater transparency promotes stakeholder understanding, strengthens due process, enhances confidence in the Board's decision making, and contributes to more durable and credible standards.
- **Clarity and understandability**. Requirements should be written so auditors, inspectors, enforcement personnel and other relevant stakeholders can understand their objective and the expected auditor performance. While practice may be influenced by inspection findings, staff guidance, enforcement activity, and other regulatory feedback, the standards themselves should be sufficiently clear and self-contained to communicate the Board's expectations. Further, requirements should be distinguishable from explanatory or application material.
- **Operability**. Standards should be capable of consistent implementation in practice. The Board should support operability through ongoing implementation guidance, interpretations, frequently asked questions, and consultation processes. The Board should also provide post-adoption implementation support to enable consistent understanding and auditor performance.
- **Scalability**. Standards should be capable of application across audits of issuers and broker-dealers of varying size, complexity, industry, and risk profile, and by firms with different operating models. Scalability should not lower audit quality expectations; rather, it should allow the nature, timing, and extent of procedures to respond appropriately to risk and circumstances.
- **Enforceability and inspectability**. Requirements should be sufficiently objective to support consistent inspection and, where appropriate, enforcement, while avoiding unnecessary prescription that could drive checklist behavior at the expense of professional judgment.
- **Consistency and interoperability**. Standards should be internally consistent and integrate cleanly with other PCAOB standards and rules, including QC 1000, and should avoid unnecessary duplication, conflicting terminology, or inconsistent requirements.
- **Technology neutrality and durability**. Requirements should be sufficiently durable to remain relevant as audit tools, data sources, AI, distributed ledgers, and advanced analytics evolve. Where technology creates specific audit risks, targeted requirements or guidance may be appropriate.
- **Convergence-readiness**. At project inception, the Board should assess opportunities for alignment with other high-quality auditing standards where alignment would improve quality, comparability, and efficiency without compromising U.S. investor protection, enforceability, or inspectability. Intended differences in auditor performance from other relevant auditing standards should be clear. Please refer to our response to Question 16 for additional discussion.

- **Cost-benefit proportionality.** Standards should be expected to produce benefits to investors and audit quality that justify implementation and ongoing compliance, methodology, technology, training and inspection costs, including effects on smaller firms, competition, and market participation. Please refer to our responses to Questions 7 and 15 for additional discussion of these considerations related to economic analysis.
- **Flexibility with accountability.** The framework should serve as a guide to informed decision-making and should not be so prescriptive that it constrains the Board's ability to respond effectively to emerging issues (such as AI, digital assets, and evolving audit delivery models). At the same time, it should provide sufficient structure to support consistency, transparency, and accountability. The framework should encourage the Board to clearly articulate objectives, explain significant decisions, consider stakeholder input, and periodically reassess whether actions taken continue to support the intended outcomes. Such an approach would promote informed judgment while ensuring that flexibility does not come at the expense of transparency or accountability.

Collectively, these characteristics should help the Board assess whether a proposed standard is likely to improve audit quality and investor protection in a clear, operable, scalable, and proportionate manner.

Question 14 – How should a conceptual framework be integrated with the PCAOB standard-setting process and what improvements, if any, could be made to the standard-setting process?

Formally adopting a conceptual framework for standard setting and embedding it into the Board's governance (e.g. bylaws) will be important to enable a more durable and consistent approach. The framework should be integrated throughout the PCAOB's standard-setting lifecycle and operate as a common evaluative lens for decision making from agenda setting through post-implementation review. It could include criteria for agenda project prioritization and for determining the most appropriate regulatory response, including research, stakeholder outreach, implementation guidance, targeted amendments, or new standard setting.

The framework should also provide flexibility for the Board to narrow, pause, discontinue, or redirect projects when stakeholder feedback, economic analysis, implementation experience, or changing circumstances indicate that a different approach would better serve investors and the public interest, with transparent communication regarding the rationale for significant decisions. For significant projects such as those requiring significant process changes, new reporting obligations, substantial technology modifications, or extensive methodology and training updates, the concept or proposing release should explain how a proposal would address the relevant conceptual framework qualitative characteristics. Broad stakeholder outreach should occur early enough to influence the direction of a project. Further, the Board should use field testing, roundtables, and implementation pilots to assess the operability and scalability of proposed requirements.

We agree with Chairman Logothetis that "the Board's responsibility to get a standard right does not conclude with their vote to adopt it."[9] Accordingly, the framework should extend beyond standard adoption and support implementation and post-implementation activities. The framework should promote a feedback loop among standard setting, implementation, inspections, and stakeholder engagement to identify interpretive issues, assess whether standards are operating as intended, and evaluate whether guidance or targeted amendments may be warranted. The Board's consideration of targeted amendments

[9] Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control | PCAOB

to QC 1000 illustrates how implementation experience and stakeholder feedback can contribute to the continued effectiveness of PCAOB standards.

With respect to potential improvements to the standard-setting process, we refer the Board to our Strategic Priorities comment letter, which includes recommendations regarding stakeholder engagement, economic analysis, transparency, implementation considerations, and other aspects of the standard-setting process. Those recommendations should be considered in conjunction with the development of any conceptual framework.

Question 15 – The PCAOB conducts economic analysis and gathers stakeholder input, both before and after our standards take effect. Should a conceptual framework include criteria or factors for evaluating economic benefits, costs, competitive effects, and unintended consequences? If so, what criteria or factors should be considered for inclusion?

Yes. As discussed in our response to Question 7, economic analysis should be a fundamental component of both project prioritization and standard-setting decisions. A conceptual framework could promote consistency, transparency, and discipline in how such analyses are performed and communicated.

To identify the most effective and proportionate means of achieving its public-interest objectives, the PCAOB should embed economic analysis in its standard-setting guidelines and process, rather than perform the analysis as a separate exercise.

Economic analyses should address expected benefits to investors and audit quality; implementation and recurring costs; scalability and smaller-firm impacts; competitive and market-structure effects; interaction with other PCAOB standards, SEC rules, and other auditing standards; behavioral incentives and unintended consequences (e.g. defensive documentation, checklist behavior, reduced professional judgment, excessive conservatism, scope expansion beyond the auditor's role); reasonable alternatives considered; and post-implementation evidence. The framework should also require transparency regarding the assumptions, judgments, data sources, and evidence supporting the Board's conclusions, including explanations of why alternative approaches were not pursued and how the Board evaluated uncertainties in its analysis.

The analysis should identify the audit-quality issue being addressed, explain how the proposed requirement is expected to improve auditor performance or investor confidence, and consider costs associated with methodology changes, training, supervision, consultation, documentation, technology enablement, and interactions with management or audit committees. The Board should also consider the strength of the evidence base, including inspection observations, enforcement matters, implementation experience, academic research, and stakeholder feedback.

Stakeholders can also play an important role in informing economic analyses by providing practical implementation perspectives, data, and estimates regarding expected costs, benefits, scalability considerations, and potential unintended consequences. Accordingly, sufficient opportunities for outreach and comment should be provided to enable stakeholders to perform meaningful analysis and provide informed feedback. Where quantitative estimates are not feasible, the Board should provide qualitative analysis and explain key assumptions, limitations, and uncertainties. Acknowledging that quantitative assessments of benefits, especially related to increases in audit quality, can be challenging, the Board should adopt guidelines for determining a best estimate of economic benefits.

Question 16 – Should a conceptual framework address alignment of PCAOB standards with those of other standard setters?

Yes. Alignment with other standard setters should be an express element of the PCAOB's standard-setting framework. Alignment of course should not override the PCAOB's statutory mandate, SEC requirements, PCAOB oversight evidence, or the needs of U.S. investors. That said, unnecessary divergence from other high-quality auditing standards can create cost and complexity without a commensurate audit-quality benefit. Divergence should be supported by a clear rationale, such as addressing SEC requirements, PCAOB rules, inspection or enforcement experience, U.S. capital market considerations, broker-dealer matters, or emerging risks not yet addressed elsewhere.

The Board should consider alignment when another standard setter is working on a similar project, has recently addressed the topic, or has developed a framework that could serve as a useful reference point. In those circumstances, the PCAOB should consider whether coordinated timing, joint outreach, use of another standard as a baseline, or a coordinated project would reduce unnecessary divergence. Each PCAOB proposal and final standard should explain the degree of alignment with analogous IAASB or ASB standards, the basis for any significant divergence, and whether the divergence is expected to be temporary or permanent. This approach would preserve the PCAOB's independence and statutory mission while reducing unnecessary complexity for investors, audit committees, multinational issuers, and global audit networks.

The ASB has adopted policies[10] that establish a framework for evaluating and incorporating standards issued by the IAASB into U.S. standards. The PCAOB could consider leveraging aspects of this existing process when developing a conceptual framework for alignment. Doing so could provide a structured and transparent mechanism for evaluating whether the IAASB's or ASB's work can serve as a baseline, identifying circumstances that justify divergence, and clearly communicating the rationale for any departures.

Question 17 – What topics should be the highest priority for alignment and why? Should alignment with IAASB standards be given higher priority than alignment with standards of other standard setters and why?

Question 18 – Should alignment be considered prospectively, i.e., when conducting future standard-setting projects, or should the PCAOB also examine previously completed standard-setting projects to determine if additional alignment would be feasible and appropriate? Should the PCAOB prioritize aligning its standard-setting agenda with those of other standard setters (as opposed to seeking to align specific standards)?

Question 19 – Should the PCAOB establish formal means to work collaboratively with other standard setters, such as seeking to develop certain projects jointly?

Question 20 – In addition to potential differences between PCAOB standards and those of other standard setters that are mentioned above, are there any other reasons for potential divergence between PCAOB standards and those of other standard setters that may be necessary to consider?

Please refer to our Strategic Priorities comment letter. Our views regarding the above questions are discussed in detail in our response to Question 5 of that letter, and those observations remain applicable

[10] AICPA Auditing Standards Board Operating Policies | Resources | AICPA & CIMA

here. We continue to support collaboration between the PCAOB and other standard setters to promote consistency, reduce unnecessary divergence, and enhance the effectiveness of global audits.

In addition, based on our experience, alignment at the standard-setting level alone may not be sufficient to achieve these objectives. Some of the most significant challenges arise from differences in interpretation, application, inspection practices, and regulatory expectations across jurisdictions, even where standards are substantially aligned. Accordingly, collaboration efforts should extend beyond the development of standards to include implementation, interpretive guidance, outreach, and other mechanisms that promote greater consistency in how standards are understood and applied in practice.

Potential Impact of Recent SEC Proposal to Allow Optional Semiannual Reporting

Question 22 – Under AS 6101, auditors may provide negative assurance regarding subsequent changes in specified financial statement line items as of a date less than 135 days from the end of the most recent period for which an audit or review has been performed. In light of the SEC's proposed revisions to the rules regarding the age of financial statements, should AS 6101 provisions related to negative assurance be amended?

Question 23 – If narrow, conforming amendments related to the negative assurance provisions of AS 6101 were to be considered, should we, for example permit the auditor to provide such negative assurance as of a date subsequent to the end of the most recent audited or reviewed period and prior to the next date that the issuer is required to file periodic financial statements? Would establishing a permissible period for providing negative assurance that is based on the issuer's next required financial statement reporting date, rather than the existing 135-day threshold, give rise to unintended consequences? Is a longer period during which negative assurance is permitted appropriate for a semi-annual filer vs. a quarterly filer? Should there be different limitations on the period during which negative assurance is available depending on whether the next period is subject to an audit or a review? What alternative approaches, if any, should the PCAOB consider?

Question 24 – Under AS 6101, auditors are limited to reporting procedures performed and findings obtained—and may not provide negative assurance—as to subsequent changes in specified financial statement items as of a date 135 days or more subsequent to the end of the most recent period for which an audit or review has been performed. If AS 6101 is amended to permit the auditor to provide negative assurance as of a date up to the issuer's next required financial statement reporting date (as described in Question 23), the existing limitation will no longer apply. Are there circumstances that should limit the auditor's ability to provide negative assurance as to subsequent changes in specified financial statement items? Should those circumstances be addressed in the standard? If so, how?

We support the Board considering amendments to AS 6101, *Letters to Underwriters and Certain Other Requesting Parties*, in connection with the SEC's proposed revisions regarding the age of financial statements, under both the Semiannual Reporting and Registered Offering Reform proposals. In our comment letter to the SEC[11] on its Semiannual Reporting proposal, we observed that the proposed changes could create operational challenges under the existing AS 6101 framework and recommended coordinated reconsideration of comfort letter standards by the SEC, PCAOB, and AICPA. In evaluating any changes to the standard's negative assurance framework, it is important to recognize that foreign

[11] File Number S7-2026-15, SEC Release Nos. 33-11414; 34-105368; 39-2563; IC-36140 (June 25, 2026) - [Comment Letters]

private issuers that file on foreign forms have successfully operated under the existing framework for many years, notwithstanding differences in reporting cadence.

Our experience suggests that the appropriateness of negative assurance is most closely linked to the recency of the underlying audited or reviewed financial information and the robustness of the issuer's financial reporting environment, not to whether an issuer reports quarterly or semiannually. Accordingly, we do not believe a longer period for providing negative assurance is warranted solely because an issuer has less frequent reporting obligations. At the same time, a clearly articulated outer limit remains an important feature of the framework because it establishes a consistent stopping point that supports comparability in practice, promotes auditor discipline, and reduces uncertainty regarding the relationship between the assurance provided and the procedures performed to support that assurance.

More importantly, the Board's project presents an opportunity to modernize AS 6101 holistically, rather than limiting its consideration to conforming amendments associated with the SEC's rulemaking. While our letter to the SEC focused on the operability implications of such rulemaking, the Board's consideration of its standard-setting agenda presents an opportunity to address broader and recurring practice challenges in applying AS 6101.

Reconsideration of AS 6101 more broadly than narrow conforming amendments

AS 6101 continues to reflect concepts and structures originally developed under a legacy AICPA framework and has not been substantively updated to reflect subsequent changes in capital markets practice, such as the role of financial intermediaries, or the nature of information included in offering documents. In fact, in some cases, the 2005 AICPA white paper, "*Comfort Letter Procedures Relating to Capsule Financial Information Presented in a Registration Statement Prior to the Issuance of Year-End Financial Statements*", is still used in practice today as interpretive guidance. As a result, auditors, issuers, underwriters, and counsel routinely encounter interpretive questions that would benefit from PCAOB standard-setting, guidance, or clarification. Operability challenges and recommendations include, but are not limited to the following.

- **Permissible recipients of comfort letters.** Further clarify the categories of parties eligible to receive comfort letters, including financial intermediaries, issuers, board of directors, and other offering participants whose roles may not be clearly contemplated by the current standard.
- **Legal representations regarding underwriting liability.** Evaluate whether existing provisions relating to legal representations of underwriting liability remain operable and relevant.

Conforming considerations under SEC's proposal

Consistent with the position expressed in our letter to the SEC, if the SEC finalizes its proposal to permit optional semiannual reporting, the Board should also evaluate whether conforming amendments to AS 4105, *Reviews of Interim Financial Information*, are needed. For example, paragraph 16 of AS 4105 requires application of analytical procedures to specified quarter-to-date and year-to-date periods, certain of which may not be presented under a semiannual reporting model. More broadly, the Board should assess whether AS 4105 remains appropriately designed for reviews covering six-month periods and consider, in coordination with the SEC, whether additional modifications to the standard are warranted.

Separately, the Board should consider whether there is a need for a broader framework addressing limited assurance over information that does not constitute a complete set of interim financial statements. For example, broker-dealer attestation standards provide a framework for limited assurance reporting on specified information, and a similar approach could be considered for other information that market participants may seek assurance over, such as earnings releases or other financial information communicated outside of the interim financial reporting framework.

Coordination with the AICPA

Because AS 6101 is historically connected to the AICPA comfort letter framework, and consistent with the coordinated approach we recommended in our SEC letter, coordination with the AICPA will be critical to avoiding unnecessary divergence between PCAOB and AICPA requirements. This approach will promote consistency where appropriate, particularly for offerings and transactions that fall outside the PCAOB's direct standard-setting jurisdiction.