CFA Institute

1900 K St NW, Suite 1130 | Washington, DC 20006
https://rpc.cfainstitute.org

August 31, 2026

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

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

Dear Chair Logothetis:

CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Request for Public Comment on PCAOB Standard Setting* ("Standard Setting RFC", "Request for Comment" or "RFC").

CFA Institute is providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures – and the related audits – provided to investors and other end users are of high quality. Our advocacy position is informed by our global members who invest both locally and globally.

The Standard Setting RFC covers a wide range of subjects. We have grouped our responses by theme rather than answering each question in sequence, and we have indexed our priorities and the questions to which they relate in the table below. We comment in detail where investor interest is greatest.

---

1 With offices in Charlottesville, VA; New York; Washington, DC; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 200,000 members, as well as 157 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org, follow us on LinkedIn, or subscribe to our YouTube channel.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

SUMMARY OF OUR VIEWS

The table below provides a high-level commentary regarding each area of our response which follows in the letter and the related questions in the Request for Comment.

#	TOPICS	QUESTIONS
	STANDARD-SETTING AND RESEARCH ACTIVITIES	
1	**What Investors Asked For in 2018:** Most investors' highest-ranked 2018 priorities remain materially unresolved; only the accounting-estimates project resulted in an effective final standard. The Board should complete work already begun, allow sufficient time for meaningful investor input, and supplement passive consultations with active outreach.	Q1
2	**Independence and Stability of Audit Standard Setting:** Frequent leadership changes, abandoned projects, and reconsideration of adopted standards have weakened continuity, productivity, and investor confidence. The Board should adopt a durable strategic plan with clear project sequencing, milestones, completion dates, and public explanations when advanced projects are paused or abandoned.	Q1
3	**Auditor Independence:** Auditor independence remains investors' highest priority and should be modernized and strengthened, particularly as private-equity investment and other structural changes create emerging risks. Overlapping with SEC requirements is not, by itself, a sufficient reason to eliminate or narrow a PCAOB investor protection.	Q1-Q2
4	**Interim Standards (Going Concern)**: The Board should establish and publish a structured modernization program with priorities, milestones, and expected completion dates. Going concern should be addressed first, followed by standards concerning service organizations, the internal audit function, and substantive analytical procedures.	Q4
5	**Firm and Engagement Performance Metrics:** The Board should revive the withdrawn metrics project using the extensive research, consultation, and rulemaking record already developed rather than restarting the process. Engagement-level metrics are particularly important because investors evaluate individual companies and their audits, and the framework should eventually address material uses of AI on particular engagements.	Q1-Q2
6	**Noncompliance With Laws and Regulations (NOCLAR):** The Board should resume the 2023 project to replace AS 2405 and address legitimate concerns about scope, feasibility, and cost through precise requirements and evidence. It should also publish a plain-language comparison of existing and proposed responsibilities and consider revising the auditor's report to disclose clearly the scope limitation that currently exists.	Q1-Q2, Q17
7	**Critical Audit Matters:** The Board already has sufficient evidence to make targeted amendments to AS 3101 that would produce more numerous, audit-specific, and decision-useful CAMs. Priority changes include requiring outcomes or key observations, revising the "especially challenging" threshold, removing the staff guidance language inviting auditors to identify CAMs on a relative basis, and using inspection findings as a standard-setting feedback loop.	Q1-Q2
8	**Fraud:** The long-overdue modernization of AS 2401 should proceed directly to standard setting and should not wait for completion of a broader technology project. Revised ISA 240 provides a useful reference point, but each provision should be evaluated against U.S. inspection and enforcement experience and the PCAOB's investor-protection mandate.	Q1-Q2, Q17
9	**Guidance vs. Standards:** Requirements that create or change enforceable obligations – including the auditor's responsibilities, the sufficiency of audit evidence, or required reporting – belong in standards adopted through notice and comment. Guidance should explain existing requirements through examples and application considerations without creating new obligations or narrowing the underlying standard.	Q3
10	**Due Process:** Routine proposals should generally receive at least 60 days for comment and complex or novel proposals at least 90 days, supported by active investor outreach rather than reliance solely on written submissions. Effective dates should reflect demonstrated implementation needs and should be deferred after adoption only when new evidence shows that the original timetable is impracticable or would undermine the standard's objective.	Q5-Q6
11	**Economic Analysis:** The Board's analysis should use independently generated or verified cost data, demonstrate rather than assume that audit-firm savings reach investors, and distinguish effects on firms, issuers, and market capitalization. It should also recognize the costs to investors and PCAOB oversight when needed transparency or investor protection is not provided.	Q7, Q15
12	**Artificial Intelligence:** The PCAOB should begin with detailed research and public education based on what its inspections reveal about how AI is used by audit area, assertion, and level of human supervision. Auditor accountability does not transfer to AI, and material AI involvement should be visible in the audit documentation before the Board considers targeted changes to evidence, analytical-procedure, documentation, risk-assessment, or internal-control standards.	Q8-Q10
13	**Digital Assets:** A broad digital-assets project should not take precedence over metrics, NOCLAR, fraud, or going concern without evidence that digital-asset exposures are sufficiently prevalent and material. The Board should first provide targeted guidance under existing evidence and confirmation standards and undertake standard setting only if research and inspection findings demonstrate that existing requirements are inadequate.	Q11

APPROACH TO STANDARD SETTING		
1	**Conceptual Framework:** We support a PCAOB conceptual framework in principle, but it should not displace more urgent standard-setting priorities or be developed solely by the Board. The Board should commission a balanced expert group to undertake the foundational work, with investor protection and transparency—not an unobservable concept of audit quality—as the organizing objective.	Q12-Q16
2	**Standard Setting Process:** The PCAOB should make its standard-setting process more transparent and accountable through public meetings where issues are discussed, disclosure of meetings with regulated entities, a public Chair calendar, summaries of stakeholder feedback, and explanations of changes between proposals and final standards. These practices would allow investors to understand how evidence affected the Board's decisions and would bring the PCAOB closer to the transparency of other standard setters.	Q 14
3	**International Alignment:** International alignment should be pursued prospectively when evidence shows that it improves the quality, enforceability, or usefulness of U.S. public-company audit requirements—not simply to achieve uniformity. The PCAOB should conduct provision-by-provision and implementation-based analysis, retain independent judgment, and avoid reopening or weakening completed standards merely to conform to an international baseline.	Q17-Q21
POTENTIAL IMPACT OF RECENT SEC PROPOSAL TO ALLOW OPTIONAL SEMIANNUAL REPORTING		
1	**Semiannual Reporting and AS 6101:** CFA Institute opposes optional semiannual reporting because less frequent reporting would leave investors relying on older information, widen private-information advantages, and weaken market discipline. Accordingly, we do not recommend recalibrating AS 6101 or AS 4105 around a premise we reject; if the SEC adopts the proposal, the PCAOB should consult separately on any conforming amendments.	Q22-Q24

After considering each of the aforementioned areas, we would organize our priorities as follows:

#	PRIORITIES
OVERARCHING PRIORITIES	
1	Independence and Stability of Audit Standard Setting
2	Standard Setting ▪ Transparency ▪ Investor Outreach ▪ Due Process ▪ Inspection Feedback Loop
3	Technology & Artificial Intelligence
STANDARD SETTING PRIORITIES	
1	Firm And Engagement Performance Metrics
2	Critical Audit Matters
3	Going Concern
4	Noncompliance With Laws and Regulations
5	Fraud
6	Modernization of Other Interim Standards
Note: Digital assets and semi-annual reporting are not priorities for investors. Our reasoning is set forth below.	

Our prioritization was informed by several factors:
- The 2018 priorities identified through our member survey.
- Topics that have the most direct impact on investors.
- The work undertaken by the PCAOB since 2018 and what is needed to finalize long-studied projects.
- Standards and activities that will enhance transparency and investors' ability to better understand the nature and quality of audit work.

We also felt it was necessary to prioritize the overarching considerations that drive the quality of audit standard setting. Accordingly, we have divided our list above into two categories: overarching priorities and standard-setting priorities.

Overarching Priorities – The overarching priorities come first because they condition everything else. A standard-setting program that does not survive a change in the Board's composition, that does not provide investors with visibility into the process, and that does not allow sufficient time for investor input will not deliver high-quality individual projects – no matter how highly those projects are ranked. Accordingly, we have prioritized these overarching considerations first.

The independence and stability of audit standard setting are discussed in detail in the body of the letter and summarized above. The same is true of the standard-setting process more broadly; however, we would highlight the importance of transparency in that process as a top priority, together with investor outreach and due process that allows for and actively solicits investor feedback. We would also highlight the importance of using the PCAOB inspection process as a feedback loop to inform standard setting. Other elements of the standard-setting process, such as guidance and improved economic analysis, are also important, but they concern how the Board conducts its work and require process enhancements rather than the prioritization we emphasize here.

We emphasize technology and artificial intelligence in our priorities because AI is changing how audits are performed, its effects are pervasive, and investors—and the PCAOB—need greater transparency into how AI is being implemented in audits.

We did not identify the conceptual framework or international alignment as overarching priorities, although for different reasons. As we highlight in the body of the letter, alignment may reduce costs for multinational firms, but the Board should identify evidence of investor benefits before treating uniformity as an objective. Alignment is a means rather than an end and should become a priority only where evidence shows that it would raise the requirements applicable to U.S. audits and enhance audit quality. We do not support the development of a conceptual framework at this time, whatever its long-term merit, because it would consume capacity needed to complete long-awaited improvements to auditing standards.

Standard-Setting Priorities – Within standard setting, our top priorities are firm-and engagement-level performance metrics and critical audit matters. Both would improve the transparency of audits for investors, and, in each case, the Board has already completed substantial consultation and research on which it can act.

Going concern, fraud, and noncompliance with laws and regulations follow in priority. Each involves a standard adopted by the PCAOB from the profession in 2003, and each concerns circumstances directly connected to the potential for significant financial losses to investors. Two have been high priorities for investors since 2018. Additionally, the Board has a starting point rather than a blank page for each of these projects – although more work has been completed on some, such as NOCLAR, than on others. We also believe that changes related to NOCLAR, including revisions to the auditor's report, could improve transparency for investors more immediately.

Modernization of the remaining interim standards completes the list. Although we have highlighted the importance of this effort for years, we believe it is a higher priority to address the standards identified above, which would enhance transparency and address matters of greatest importance to investors. As we outline in the body of this letter, we believe the Board should establish and publish a structured modernization program with priorities, milestones, and expected completion dates.

Two areas do not qualify as priorities under any of these criteria. Digital assets must meet – but have not yet met, in our view – the pervasiveness threshold necessary to warrant standard setting, while semiannual reporting rests on a premise we do not accept.

Independence – Auditor independence warrants a word of explanation because our members ranked it first in 2018, yet it appears in neither list. Independence remains foundational to the audit process at both the overarching and individual standard-setting levels. It is the condition on which every other audit requirement depends. Our list above reflects sequencing rather than relative importance. The Board is not proposing to strengthen independence but is instead asking whether the interim standards should be retained in their current form. Our priority with respect to independence is therefore that it not be weakened, which is a different objective from the standard-setting projects identified above.

STANDARD-SETTING AND RESEARCH ACTIVITIES

DETERMINING STANDARD-SETTING AND RESEARCH PRIORITIES

What Investors Asked For in 2018 and What Has Happened Since (Question 1)

PCAOB Potential Standard Setting Focus Areas Outlined in the Request for Comment
Table 1 of the RFC on PCAOB Standard Setting identifies six potential focus areas. We address each area below, note the status of related projects, and compare the Board's list with the priorities identified by CFA Institute members in 2018.

PCAOB POTENTIAL FOCUS AREAS
Data and Technology
Fraud
Critical Audit Matters
Noncompliance With Laws and Regulations
Firm And Engagement Performance Metrics
Auditor Independence
Note: The table reproduces the six areas listed in Table 1 of the PCAOB's RFC.

The request also asks about modernization of the remaining interim standards, the PCAOB's approach to standard setting, potential alignment with international auditing standards, and the implications of optional semiannual reporting.

CFA Institute

2018 Investor Priorities

Before turning to the Board's focus areas, we consider the status of the five priorities that CFA Institute members ranked highest in 2018[3].

- **Standards for auditor independence.** The core interim independence standards identified in Appendix 1 of the RFC remain in effect substantially in the form in which they were adopted. The request asks whether those standards should be retained in their current form considering potential overlap with SEC Rule 2-01 of Regulation S-X, which invites the possibility of relaxation. Our members sought the opposite in 2018; their priority was to strengthen auditor independence. Any modernization should therefore preserve or enhance investor protections rather than weaken them.

- **Independence of the governance of audit standard setting.** Governance is not one of the six potential focus areas in Table 1, but it is a topic priority for investors. In January 2026, the SEC appointed four new PCAOB members and retained one incumbent.[4] This followed a 2025 House-passed proposal, which ultimately failed, that would have transferred the PCAOB's budget and functions to the SEC and eliminated the PCAOB's separate funding authority.[5]

  The Board's composition now turns nearly entirely with changes in Presidential Administration – and the durability of its work has suffered. Recent project history highlights those continuity concerns on matters of particular interest to investors: the 2023 NOCLAR proposal has not been finalized; the firm and engagement metrics rules adopted in 2024 were withdrawn from SEC consideration in February 2025; and the Board is considering targeted amendments to QC 1000 before its effective date.[6]

  Funding and governance also warrant attention when the Board considers greater alignment with international (IAASB) standards. At the May PCAOB Standards and Emerging Issues Advisory Group meeting, John White, a Cravath partner who generally advocates for the audit profession notes that there is no real discernible benefit to investors of converged auditing standards and that the benefit is really a cost benefit to the audit profession.[7] The Sarbanes-Oxley Act (SOX Act) included provisions for independent funding of the PCAOB such that the audit profession was not setting standards for itself. Reliance on IAASB

3 CFA Institute, Audit Value, Quality and Priorities (2018). The survey asked members to rank priorities for audit standard setters and regulators. See Page 13.

4 SEC, SEC Appoints New Chairman and Board Members to PCAOB, January 30, 2026

5 Congressional Research Service, One Big Beautiful Bill Act Title V House Committee on Financial Services, May 22, 2025

6 See amendments at:
- PCAOB Docket 051 and AS 2405 Illegal Acts by Clients
- PCAOB Docket 041 and SEC Release No. 34-102399 concerning withdrawal of the firm and engagement metrics filings
- PCAOB Release No. 2026-002, Supplemental Request for Comment on Proposed Amendments to QC 1000, June 9, 2026

7 See remarks at minute 49: PCAOB Standards and Emerging Issues Advisory Group Meeting (Part 2 of 2)

standards would run counter to the provisions of the SOX Act which required standard setting independent of the profession.

The International Foundation for Ethics and Audit (IFEA) reported that IFAC provided $18.97 million of its $19.30 million in contributed revenue in 2024, while IFEA stated a goal of increasing contributions from outside the accounting profession[8]. At the same time, the IAASB and IESBA were moved to a separate legal entity that describes itself as independent of IFAC and subject to oversight by the Public Interest Oversight Board (PIOB). However, the PIOB has such significant funding issues that its auditor has drawn attention to a material uncertainty related to going concern, arising from what it describes as continuing structural funding challenges.[9] These facts support continued attention to funding diversification and governance safeguards. The IAASB model is not what the SOX Act contemplated.

- **Noncompliance with laws and regulations (NOCLAR).** AS 2405, *Illegal Acts by Clients*, a 2003 interim standard still governs auditors today and allows illegal acts, or noncompliance with laws and regulations, to be nothing more than a peripheral matter the auditor addresses if it happens to come to attention. Specifically, for laws and regulations that may have a material but indirect effect on the financial statements, the standard generally does not require procedures specifically designed to detect illegal acts unless information suggesting a possible illegal act comes to the auditor's attention. The 2023 proposal would have replaced AS 2405, but it has not been finalized[10]. The 2026 request now asks whether AS 2405 should be revised and, if so, how. This priority therefore remains unresolved.

- **Robust audit quality indicators.** The PCAOB's work on audit quality indicators is documented at least as far back as 2013, followed by a 2015 concept release. The April 2024 proposal included 11 metric areas; the November 2024 final rules reduced that number to eight. Six of the final metric areas applied at both the firm and engagement levels, while retention of audit personnel and restatement history were firm-level only. The PCAOB withdrew the SEC filings for the final rules in February 2025, before the rules became effective. The project therefore has not yet produced effective public-reporting requirements.

- **Auditing standards for accounting estimates.** This is the one priority on which the Board completed a final auditing standard that is now in effect. The Board adopted revised requirements for auditing accounting estimates, including fair value measurements, in December 2018 shortly after our survey was published.[11]

In summary:

- Of these five priorities, auditing accounting estimates is the only one that has resulted in a final PCAOB auditing standard now in effect.

8 International Foundation for Ethics and Audit, 2024 and 2023 Financial Statements and governance information
9 The PIOB Publishes its 2025 Financial Statements
10 NOCLAR Has Only Been Put on Hold - The CPA Journal
11 Auditing Accounting Estimates, Including Fair Value Measurements, PCAOB Release No. 2018-005 (December 2018), Docket 043.

- The NOCLAR proposal was issued but not finalized, and the firm and engagement metrics rules were adopted by the PCAOB but withdrawn from SEC consideration before becoming effective.
- The independence, governance, and audit quality indicator priorities therefore remain materially unresolved.

Against that background, the Board is again asking how it should set its agenda. ***Our recommendation is that it finish the work it has already started and consulted on, rather than open new fronts, and explain how that prior consultation has informed its next steps.***

Short Comment Period Prohibits Time for Updated Survey, Meaningful Investor Outreach and Input

The RFC was issued on June 23, 2026, with comments due August 7, 2026. Excluding the federal holiday observed on July 3, that allowed 32 business days for comment. The period also overlapped with SEC proposals affecting public-company reporting and disclosure as we address in our comment letter to the SEC. Such a comment period does not allow sufficient time for investors to respond in a meaningful way to this proposal.

Additionally, this timetable is not sufficient to design, field, and analyze an updated investor survey addressing developments since 2018, including artificial intelligence and digital assets.

While a consultation is useful, it is a passive exercise. It depends on stakeholders identifying and understanding the issues. Investors, unlike audit firms, do not work with auditing standards every day. Further, highly technical audit language can discourage participation unless the Board pairs written consultation with active outreach and explains in plain language how potential changes could affect audit execution, audit transparency, and the reliability of information provided to investors. The Board should therefore supplement written consultation with direct and sustained investor outreach. The compressed comment period makes it challenging to believe the Board has undertaken that active outreach in such a short period of time.

Before finalizing its priorities, we believe the Board needs to demonstrate active investor outreach.

Standard Setting Should Be Investor Focused: Investor Priorities Do Not Change with Political Changes or Changes in the Board

In our January 2022 letter to the newly appointed Board, we asked the Board to consult actively with investors and modernize the standards it inherited. From 2022 through 2025, the Board advanced several projects related to those priorities, and investor engagement improved.

More recently, the reported decision to close the Office of the Investor Advocate has renewed concerns about whether investor input will remain institutionally embedded in the PCAOB's work. [12] Members of the PCAOB's Investor Advisory Group subsequently requested regular

[12] Financial Times: *US audit regulator scraps investor advocate role as Trump-era revamp accelerates*

board-level communication channels and continued investor engagement. The PCAOB's statutory mission has not changed. Section 101(a) of the Sarbanes-Oxley Act states[13]:

> *There is established the Public Company Accounting Oversight Board, t**o oversee the audit of public companies** that are subject to the securities laws, and related matters, **in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports for companies the securities of which are sold to, and held by and for, public investors**.*

Leadership may change, but the statutory mission does not. The Board should not assume that changes in its composition alter investors' underlying need for independent, informative, and reliable audits. The request itself notes that, 23 years after the PCAOB adopted the AICPA's standards on an interim basis, numerous interim auditing, attestation, ethics, and independence standards remain in effect substantially in their original form. ***That history supports sustained modernization rather than repeated resets.***

Independence and Stability of Audit Standard Setting (Question 1)

Question 1 asks whether the Board should prioritize areas not listed in Table 1. One such area is the independence and governance of audit standard setting, which – as noted above – CFA Institute members ranked second among the 13 priorities presented in the 2018 survey. Although this is not itself a standard-setting project, independence is foundational to investors' trust in the standards the Board adopts.

Some elements of the PCAOB's independence lie outside the Board's control. The SEC appoints Board members and oversees the PCAOB's rules, standards, and budget. Board terms are statutorily staggered, but the SEC's appointment of four new members in 2026 demonstrates the turnover occurring on the Board with each new administration. The current members bring different professional backgrounds and levels of audit-practice experience – a majority with no audit experience and none with investor experience on this Board. This turnover and experience differences make durable planning and consistent investor engagement challenging – yet especially important.

These frequent changes in leadership and direction make the PCAOB less productive – as evidenced by the lack of modernization of the standards since 2003; the withdrawal of the metrics filings; the absence of a final NOCLAR standard; and the reconsideration of QC 1000 before implementation – and reduce investor confidence in the PCAOB.

The Board is charged by the Sarbanes-Oxley Act, subject to SEC oversight, with protecting investors and furthering the public interest. Congress created the PCAOB following the Enron, WorldCom, and other corporate-reporting scandals to provide independent oversight of the audit profession. The credibility of the standard-setting agenda depends on investors' confidence that the Board is carrying out that responsibility.

---

13 15 U.S.C. section 7211, establishment and duties of the PCAOB

The Board should adopt a strategic plan that reflects a durable institutional commitment to modernizing auditing standards. Its standard-setting program should identify project sequencing, milestones, and expected completion dates so that work can continue through changes in personnel. When the Board pauses or abandons a project that has reached the proposal or adoption stage, it should explain publicly why the project did not proceed and how the decision reflects the evidence, due process, and investor-protection mandate.

Investors have devoted substantial time to proposals that were not finalized or were reconsidered before implementation. Without clear explanations and continuity, repeated resets discourage future participation and weaken confidence in the Board's independence and commitment to investor protection.

Auditor Independence (Questions 1 and 2)

Auditor independence was the highest-ranked priority in our 2018 survey. It is the foundation for the auditor's objectivity and willingness to reach conclusions that management may oppose. Procedures, documentation, and quality-control requirements cannot compensate for a lack of independence. Unlike the institutional independence of the PCAOB, auditor independence is addressed directly through standards and rules.

Although auditor independence remains a top priority for investors, our support for placing it at the top of the Board's agenda depends on the project's objective. The Board should modernize and strengthen the independence framework, not use modernization as a vehicle for reducing investor protections.

The RFC asks whether the PCAOB's interim ethics and independence standards should remain in their current form considering potential overlap with SEC Rule 2-01 of Regulation S-X. Duplication alone is not a sufficient reason to remove a PCAOB protection. Any proposal to eliminate or narrow a PCAOB provision should identify the precise conduct covered by both regimes, compare their definitions and exceptions, assess how each requirement can be applied and enforced, and demonstrate that the change would not reduce investor protection.

Commercial and structural changes in the profession reinforce the need for caution. A 2025 research paper presented at a PCAOB conference identified more than 100 accounting firms that had become affiliated with private-equity firms during the preceding five years and described potential implications for the operation and independence of attest practices.[14] The SEC's Office of the Chief Accountant has likewise stated that it is monitoring audit-firm structural changes driven by private-equity and venture-capital investment because they present both opportunities and risks, particularly for audit quality and independence.[15] The Board should evaluate these developments with evidence and ensure that the independence framework keeps pace with

[14] Donahoo, Nielson, and Pickerd, It's Complicated: Private Equity's Relationship Status with the Attest Industry, paper presented at a 2025 PCAOB conference.

[15] SEC Office of the Chief Accountant, Statement in Connection With the 2025 AICPA Conference on Current SEC and PCAOB Developments, December 19, 2025.

emerging risks.

Modernizing the Interim Standards (Question 4):
Structured Modernization Program is Needed, Going Concern Should be a Priority

In our January 2022 letter to the newly appointed Board – and elsewhere in this response to the current Board – we urged the PCAOB to establish a structured program for modernizing the remaining interim standards. The program should include a published sequence, milestones, and expected completion dates, rather than leaving projects to be addressed only as capacity permits or as political winds shift.

NOCLAR and fraud are two of the six focus areas in the request, and AS 2401, *Consideration of Fraud in a Financial Statement Audit* and AS 2405, *Illegal Acts by Clients* are among the remaining interim standards. The 2018 survey ranked auditor consideration of NOCLAR third and going-concern judgments and disclosures sixth among 13 topics. We recommend that going concern be the first priority among the additional interim standards discussed below.

- **AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*.** Going concern is where audit performance touches investors very directly. Because of this, CFA Institute has published on this issue since at least its 2012 member survey. We discuss those findings on going concern which we write about in a blog at: *Continued Concern for "Going Concern" Reporting - CFA Institute Market Integrity Insights*. The PCAOB's Going Concern project page shows discussions of this topic going back to at least 2009. Commenters raised this in their Strategic Priorities commentary to the Board, but it does not appear in the Board's focus-area table.[16]

  AS 2415 requires the auditor to evaluate substantial doubt for a reasonable period not exceeding one year beyond the financial-statement date. ASC 205-40 requires management to assess conditions and events within one year after the financial statements are issued or available to be issued.[17] AS 2415 was written before ASC 205-40 existed, so the auditor's evaluation period and the company's disclosure obligations now rest on different footings. Modernizing the standard would align the auditor's work with what management is already required to assess and disclose.

  The IAASB published ISA 570 (Revised 2024), *Going Concern* in April 2025; it is effective for periods beginning on or after December 15, 2026. These developments support prioritizing AS 2415 now. It appears past time for updating this standard.

- **AS 2601, *Consideration of an Entity's Use of a Service Organization*.** The standard became effective in 1993 and predates the present scale and form of cloud computing and

---

16 Standard Setting RFC, p. 8 (listing topics discussed by commenters but not identified as potential focus areas).

17 See:

- PCAOB AS 2415, Consideration of an Entity's Ability to Continue as a Going Concern
- FASB Accounting Standards Update 2014-15, Presentation of Financial Statements—Going Concern

outsourced processing. It addresses the auditor's responsibilities when a service organization's activities form part of the user organization's information system. The PCAOB added this project to its mid-term agenda in May 2023. The Board should assess whether the standard remains adequate for current service-delivery models and evidence flows.

- **AS 2605, *Consideration of the Internal Audit Function*.** This interim standard has been effective since 1991. The Board should assess whether changes in internal-audit practice, technology, and organizational models require revision, including the conditions governing use of internal auditors' work and direct assistance.

- **AS 2305, *Substantive Analytical Procedures*.** The PCAOB issued a proposed replacement in June 2024 to address, among other matters, the increasing use of technology-based tools. The project remains at the proposal stage. The Board should bring it to a conclusion and address how data analytics and AI affect the design of analytical procedures and the reliability of the data and models on which they depend.

We believe it is important to publish a modernization program and schedule to establish accountability such that stakeholders can see the ordering and prioritization of projects, plan their input, and hold the Board accountable to the timetable.

Firm and Engagement Performance Metrics (Questions 1 and 2)

Reviving the firm and engagement metrics project is among our highest priorities. Engagement-level information is especially important because investors make investment decisions about particular companies and therefore rely on the performance of the audit of each company, not on firm-wide averages.

Our 2018 member survey, as noted above, ranked the development and monitoring of robust audit quality indicators fourth among 13 standard-setting priorities. The PCAOB's own *Firm and Engagement Metrics Project Page* highlights it has worked on audit quality indicators since at least 2008, which led to a 2015 concept release; an April 2024 proposal; and final rules in November 2024. As noted previously, the final rules were narrower than the proposal: they contained eight metric areas, six applicable at both the firm and engagement levels and two applicable only at the firm level. The PCAOB withdrew the SEC filings for those rules in February 2025, before they became effective.

We have supported this work at every stage: in our letter to the Board on the proposed rule (August 30, 2024, Docket 041), and in our letters to the SEC on the filing of the final rules (January 7, 2025 and February 4, 2025). As we highlight in our 2024 correspondence to the SEC on this issue, this project – as the docket numbering conveys – has been discussed and debated for nearly two decades. Our February 4, 2025, comment letter to the SEC highlights not only what was lost between proposal and adoption but also highlights KPMG's acknowledgement that such measures are effective at measuring engagement performance. This proposal highlights the governance challenges the PCAOB has faced in standard setting and in fulfilling its investor-protection mandate.

The RFC contemplates further research and outreach to audit committees, investors and firms before deciding whether to pursue metrics reporting.[18] This project, however, has been researched for decades. It was proposed, supported by investors, adopted in a much-narrowed form and then withdrawn. A further research phase would repeat work the Board has already done and is a wasteful effort for stakeholders. Repeating the same process hoping for a different answer is not effective. The survey conducted by the Center for Audit Quality (the CAQ), the audit profession's advocacy organization – as we highlight in our [January 7, 2025, comment letter to the SEC] – finds that investors strongly support such metrics.

Because the Board has already completed extensive research, consultation, proposal, and adoption stages, any renewed work should begin with the existing record and identify the specific questions that remain unresolved. It should not restart the project without explaining why the prior record is insufficient.

The use of artificial intelligence should not become a reason for further delays. The extent and manner of a firm's use of AI on an engagement itself is becoming engagement-level information that investors need, and the metrics framework and how it may shift is an important transparency and communication exercise. As practice develops, the Board should consider whether engagement-level metrics can provide useful, comparable information about material uses of AI, the audit areas affected, and the extent of human supervision and review. Any such metric should be tested for reliability and decision-usefulness before it is required.

Noncompliance with Laws and Regulations: AS 2405 (Questions 1, 2 and 17)
The Board should resume work on the 2023 to replace AS 2405, *Illegal Acts by Clients*. The proposal has not been finalized, nor has it been formally withdrawn.

AS 2405 distinguishes laws and regulations with a direct and material effect on the financial statements from those whose effects are indirect. For the latter category, the existing standard generally does not require procedures specifically designed to detect noncompliance unless information suggesting a possible illegal act comes to the auditor's attention. However, that premise is inconsistent with the wording in the audit opinion and investor expectations.

Investors do not experience a company's material noncompliance with laws and regulations as indirect. They experience it through restatements, penalties, enforcement actions, reputational damage, and loss of value. That supports reconsidering whether auditors' existing responsibilities are appropriate in identifying and responding to material noncompliance or whether a necessary modification (scope exclusion) is necessary in the audit opinion to make the auditor's responsibilities clear to readers of the audit opinion. Currently, the scope exclusion is buried in an auditing standard rather than transparently communicated to investors.

---

[18] Standard Setting RFC, Table 1, p. 8

Investors, including CFA Institute, supported the 2023 proposal.[19] Much of the profession did not. They opposed it, objecting principally to its scope and cost rather than to the case for replacing a standard written in 2003. As the PCAOB's NOCLAR project page highlights this project has been debated for over a decade.

The 2023 proposal was met with extensive claims about cost, that were not supported by empirical evidence, in opposition to the standard – much of it directed to the media and audit committee members. The audit committee members we spoke with at the time could not explain what the PCAOB standard actually required, nor how the standard dovetailed with their, and the company's, responsibilities under Sarbanes-Oxley. They were simply familiar with the narrative.

The first thing the Board should do is publish a plain-language comparison of the existing standard, the 2023 proposal, and management's and the audit committee's responsibilities under applicable law. That would give investors and audit committees a common factual basis on which to assess the project.

The Board should also address concerns raised about the proposal's scope, feasibility, and cost with precise requirements and supporting evidence rather than treating disagreement as opposition to modernization itself.

If the Board decides not to undertake this project in its entirety, we believe it should amend the auditor's report (scope exclusion) to clarify the scope of the auditor's responsibilities. Such a modification would help readers of the audit opinion understand that under existing PCAOB standards an audit includes significant limitations to the auditors responsibilities related to non-compliance with laws and regulations.

Critical Audit Matters (Questions 1 and 2)

There is already sufficient evidence for the Board to begin targeted amendments to AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*[20]. The diagnosis of the improvements needed in CAMS has already been provided by investors; specifically, the Board's own Investor Advisory Group, which convened an expert panel on critical audit matters in June 2023 and delivered a formal recommendation to the Board in October 2023.[21]

19 CFA Institute, Response to PCAOB NOCLAR Proposal (23 August 2023), PCAOB Rulemaking Docket Matter No. 051

20 See project page at: Docket 034 | PCAOB, standard at AS 3101: The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion | PCAOB, and post implementation review at: Auditor Reporting | PCAOB

21 IAG Subcommittee on Standards, Briefing to the PCAOB - Critical Audit Matters (7 June 2023), an expert panel moderated by CFA Institute's Sandra Peters with Martin Baumann, Jared Goodman, Colleen Honigsberg and Samantha Ross; PCAOB Investor Advisory Group, Recommendation: Improving Critical Audit Matter Disclosures (October 2023).

Number of CAMs. Analysis presented to the IAG from the PCAOB's December 2022 post-implementation report[22] showed the average number of critical audit matters per audit report for large accelerated filers declined from 1.69 in the first review period to 1.43 in the third – with the proportion of reports communicating only a single CAM rising over the same period. Fewer than half of the 53 investors surveyed found CAMs easy to understand (44%) or tailored to the audit performed (40%).

Content of CAMs. The declining count matters, but it is a symptom. The primary problem is the content: CAM disclosures consist only of the descriptions of the procedures the auditor performed rather than insight regarding what the auditor found. This is because AS 3101 requires the auditor to explain how each CAM was addressed, but the standard makes outcomes and key observations optional. The PCAOB staff reported in its post-implementation report mentioned above that some investors wanted more audit engagement-specific language and discussion of the outcomes of procedures because the language has become standardized to the point where it distinguishes neither one company from another nor one year from the next. An investor reading two CAMs on impairment at two companies in the same industry should be able to tell which audit was more challenging, and why. Today, often, they cannot. The Board should test whether requiring outcomes or key observations would make CAMs more decision-useful without compelling disclosure of original company information.

IAG Recommendation. The IAG's October 2023 recommendation provides a practical agenda and sets out seven actions.[23] The most valuable actions are the narrowest, because targeted changes to the words of the standard are what will change behavior. Those three recommendations include:

1) Revising the 2019 staff guidance to remove the language inviting auditors to identify CAMs on a relative basis;
2) Replacing "especially challenging" with "challenging matters"; and
3) Amending AS 3101, *The Auditor's Report on an Audit of Financial Statements* paragraph .14(c) so that describing the auditor's observations and the outcome of the procedures becomes mandatory rather than optional.

The IAG's other recommendations included:

4) Greater focus on CAMs in the inspection process as the PCAOB is unique and can use inspection findings as a feedback loop to improve standard setting;
5) More detailed investor outreach;
6) Commissioning academic research, and
7) Having the IAG perform an annual CAM review (which has occurred since the recommendation was made by the IAG).

We place particular weight on the first three measures because they are most directly connected to how auditors identify and communicate CAMs.

[22] PCAOB Release No. 2022-007, Further Evidence on the Initial Impact of Critical Audit Matter Requirements
[23] IAG Recommendation, p. 9-11.

CFA Institute Long-Held Views. CFA Institute has long expressed the view that the CAMs (i.e., before they were labeled as CAMs) should reflect the matters the engagement team itself identified as most difficult. The auditor's completion memorandum required by AS 1215, *Audit Documentation* identifies significant findings and issues, while AS 1301, *Communications with Audit Committees* and AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* govern audit-committee communications and CAM determinations.[24] These aspects of the audit documentation record important matters while the audit is underway, before any consideration of how a disclosure will read. The test of a CAM regime is, in our view, whether investors see what the auditors themselves flagged internally. We would add that expressly directing auditors to the areas of major estimates and significant judgments would raise both the number and the usefulness of the matters reported. We have also indicated that the auditor's report should – consistent with practice in the UK – disclose the materiality applied in the audit. A single number would do more for the decision-usefulness of the report than any amount of qualitative procedural narrative.[25]

Our support for this is long-standing: in our 2010 member survey on the independent auditor's report, 82% of respondents agreed that the method by which the auditor determines materiality should be disclosed, and our published position on materiality records investor support for disclosure of the thresholds auditors apply. We note that this is not a requirement of the international auditing standards; it is required in the United Kingdom under ISA (UK) 701.

Inspection Feedback Loop to Standard Setting. The inspection program provides rich information regarding how CAM determinations are made and how they should be articulated. The inspection program can compare its inspection records with reported CAMs and publish thematic findings without identifying confidential engagement information. That feedback loop would help the Board determine whether the principal issue is compliance, guidance, or the wording of the standard.

The same logic applies beyond CAMs. The inspection program is the Board's best evidence of how its standards operate in practice, and it should feed systematically into standard setting rather than being drawn on case by case. We have included this among our overarching priorities above.

Illustrative Examples. We also believe the Board should publish anonymized or hypothetical industry examples of effective CAM communication by industry, since the practical question auditors and audit committees ask is what a good CAM looks like in their sector.

[24] PCAOB AS 1215, Audit Documentation; PCAOB AS 1301, Communications with Audit Committees; PCAOB AS 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion

[25] Surveys CFA Institute conducted before the CAM standard was adopted found that investors wanted audit reports to provide more comprehensive information about key audit risks (See pages 3 and 15). IAG Recommendation, p. 1.

Litigation Risk. We note, finally, that litigation risk should not be accepted as a reason for restraint. That is common advocacy refrain used to oppose change but rarely materialize when changes are made.

AS 2401, Consideration of Fraud in a Financial Statement Audit (Questions 1, 2 and 17)

Modernizing AS 2401, *Consideration of Fraud in a Financial Statement Audit*, should proceed directly to standard setting rather than to further research. The standard is amongst the oldest standards in the Board's literature – it predates the data, technology and transaction structures through which frauds are now executed and concealed – and was adopted on an interim basis in 2003 and remains among the standards the 2026 request identifies for possible modernization. The PCAOB Fraud project page highlights the various discussions the PCAOB has had on this standard setting project in recent years after it was put on the mid-term standard setting agenda in 2022.

Fraud is where the expectations gap between what investors expect of an audit and what the standards require is widest – as what the audit opinion says is different than the expectations set for themselves. The auditor's report (as excerpted below) states that PCAOB standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement, whether caused by error or fraud.

> We conducted our audits in accordance with the standards of the PCAOB. T***hose standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.*** Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

That wording makes the auditor's fraud responsibilities especially important to investor expectations. Fraud is where the cost of audit failures can result in the significant losses to investors, because a fraud that an audit does not uncover can compound losses and impairs confidence in reported information for years afterward. While 'reasonable assurance' is not a guarantee that all fraud will be detected, undetected material fraud can magnify investor losses and undermine confidence in reported information.

The IAASB completed its revision of ISA 240 in 2025, effective for periods beginning on or after December 15, 2026.[26] The revision clarifies responsibilities, strengthens the fraud lens in risk assessment and response, and expands transparency for publicly traded entities. It provides a current reference point, but the PCAOB should evaluate each provision against U.S. inspection and enforcement experience rather than treating international alignment as either a floor or an automatic objective.

We agree that the Board should coordinate work on AS 2401, *Consideration of Fraud in a Financial Statement Audit* and AS 2405, *Illegal Acts by Clients* because fraud and

---

[26] See CFA Institute Comment Letter at: IAASB on Fraud Auditing Standard.

noncompliance can overlap.[27] The fraud project should not, however, wait for completion of the broader data-and-technology research project. Technology-enabled fraud and technology-assisted detection can be addressed in the fraud proposal using the evidence currently available, with later amendments if the technology project produces additional relevant findings.

Guidance or Standards (Question 3)

Question 3 asks when the Board should use guidance rather than standards. The principal distinction should be whether the Board is creating or changing an enforceable obligation. Requirements governing the scope of the auditor's responsibilities, the sufficiency of audit evidence, or the information that the auditor must report belongs in standards adopted through notice and comment. Guidance is better suited to explaining existing requirements through examples, illustrations, and application considerations.

Guidance can support implementation, but it should not create a new obligation or narrow a standard through interpretation. The Board should identify the paragraph being explained, state that guidance does not amend the standard and use inspections to determine whether recurring application problems require a formal amendment. The 19% Part I.A deficiency rate reported for randomly selected 2024 engagements underscores the need for effective implementation, but that statistic alone does not establish that guidance rather than standards is the cause or the remedy. [28]

Comment Periods and Investor Outreach and Engagement (Question 5)

Comment Periods. For routine proposals, we recommend a comment period of at least 60 calendar days. At least 90 days should ordinarily be allowed for complex or novel projects, supplemental requests that materially revisit an adopted standard, or unusually long releases with numerous questions. The Board should explain why a shorter period is sufficient when it departs from its ordinary timetable.

The length of a comment period should also be set by reference to what a considered investor response actually requires. Does a meaningful response require data gathering, investor consultation, advisory group discussion and management approval? Does the comment period overlap peak reporting seasons? Are several releases open at once, competing for the same reviewers? Investors are the constituency genuinely disadvantaged by short windows.

The recent release of three consultation documents with 30-45 calendar day comment periods (approximately 20-30 business days) when the SEC is consulting on major reforms without active outreach to investors and sole reliance on passive response is not an effective due process approach.

Investor Outreach and Engagement. We welcome the Board's use of the Investor Advisory Group and the Standards and Emerging Issues Advisory Group in developing the RFC [29] and its publication of strategic-priorities comments. However, as noted above, recent comment periods

[27] Standard Setting RFC, Table 1, Potential Focus Areas, Fraud, p. 6.

[28] QC 1000 Supplemental Request, Section V, reporting a staff estimation that the 2024 Part I.A deficiency rate was 19% among randomly selected engagements.

[29] Standard Setting RFC, p. 4-5.

have not allowed sufficient time for investor response to this passive approach, and they highlight that the PCAOB has done no active outreach to investors other than a reference to engagement with the advisory group: those the PCAOB has the mandate to serve. For significant projects, the Board should also publish an outreach plan, convene investor roundtables, and explain proposals in terms of their effects on audit performance, financial reporting, and investor decision-making. Written comment files are important, but they should be complemented by active outreach. The burden should not fall on investors to discover, decode and respond to releases within compressed windows.

Effective Dates (Question 6)
Effective dates should be realistic when a standard is adopted and should depend on the complexity of the standard; methodology changes necessary; technology development required; the necessary training needed; and informed by the implementation work required. The Board should test implementation evidence supplied by firms and other stakeholders and distinguish systemic changes, such as a new quality-control framework, from targeted amendments.

Additionally, we believe the PCAOB should develop a more analytical and quantitative approach to the adoption of standards by the largest versus the smallest firm as the "burden" on smaller firms (i.e., cost benefit and adoption difficulties) are routinely used by the audit profession as a reason to delay standards that they would prefer never to be implemented.

Once set, effective dates should be changed only when new evidence shows that implementation on the adopted timetable would be impracticable or would undermine the standard's objective. As we said in our September 2025 letter opposing delay of QC 1000, extensions granted after adoption reward the firms that started late, penalize those that invested in timely implementation, and defer investor protections the Board itself found justified. Post-adoption deferrals can disadvantage firms that invest in timely implementation and postpone expected investor protections. When difficulties can be addressed through implementation support or staff guidance, those tools are preferable to delay.

Economic Analysis in Setting Priorities (Question 7)
Economic analysis should inform standard-setting and prioritization. We recommend four disciplines:

- ***Gathering Independent Cost Data.*** Cost estimates should be generated or verified by the Board and the methodology disclosed. Estimates supplied by the parties being regulated, or the audit profession's advocacy organization, and in opposition to a requirement – as in the case of the result proposed revisions to QC1000 – are likely to reflect their self-interest. Further, estimates built on undisclosed and inconsistent methodologies cannot be evaluated at all.
- ***Evidencing, Rather Than Assuming, Pass-through of Cost Savings to Investors.*** Savings to audit firms are – at times, in the Board economic analysis – assumed to be an investor benefit. This only occurs if audit firms' cost savings are passed on to audited entities and then if the audited entities pass that savings on to investors. We don't think the Board can make

this assumption without evidence. Cost reductions retained by audit firms are not an investor benefit and should not be counted as one.

- ***Stratifying Analysis for the Large vs. Small Firms.*** Economic analysis should be scaled both in individual standard setting projects, and in deciding which projects to pursue. As noted above, the audit market is an oligopoly, and the largest firms audit the vast majority of public companies by market capitalization. Economic analysis should consider this feature of the market. Further, in some of the Board's economic analysis they conflate small audit firms with small public companies and capital formation. That link and its consequences may appear spurious at times. We think the economic analysis should consider several dimensions and keep them distinct including:
    1. the audit firms affected by a particular rule;
    2. the differing impact or cost of the proposed rule on the affected firm;
    3. the issuers the affected audit firm audits; and
    4. the market capitalization those issuers represent.

  Discussion that moves between small firms and small companies without connecting them cannot support conclusions about either. An aggregate economic analysis of a highly concentrated market obscures where investor exposure actually exists.

  As we observed in our September 2025 letter on the delay of QC 1000, the impact of auditing standards on smaller firms and smaller companies is frequently overstated by the profession as a means of delaying standard setting for the largest firms, where most investor exposure is concentrated. Barriers-to-entry analysis should also be paired with data on what share of issuer audits, and of market capitalization, the affected population actually performs.

- ***Considering Costs to Investors and PCAOB Not Simply Cost to Firms.*** Most economic analysis excludes the costs to investors. Such analysis rarely captures what investors lose when a standard is not adopted (e.g., firm and engagement performance metrics). The Board's economic analysis should expressly include the loss of information to investors – and PCAOB oversight – not simply the compliance costs to audit firms. This is an important unintended consequence, both here and in Question 15.

These disciplines would make the analysis more transparent and reduce the risk that aggregate estimates obscure where costs and investor exposure are concentrated.

DATA AND TECHNOLOGY

Artificial Intelligence (Questions 8 to 10)

Investors cannot verify audit quality given the lack of transparency they have on the audit. This is why they rely on standards, inspection and enforcement and why they continually seek greater transparency regarding the audit – for example in the pursuit of firm and engagement performance metrics.

Artificial intelligence (AI) deepens that challenge for investors. The only parties who know how AI is actually being used in an audit are the audit firms themselves. Investors do not know. Audit committees, in most cases, do not know in any detailed way. This consultation highlights the

Board does not yet know either[30]. That asymmetry, rather than any particular technology, is what should shape the Board's response.

We support treating AI as a research and public-education project first, and a standard-setting project when the research has provided sufficient understanding and transparency for regulators, audit committees, and investors to be able to make informed decisions.

It seems challenging to believe the Board can responsibly write requirements for audit practices it has not yet fully understood, and we would be cautious about any commenter, including ourselves, who claims to know what those requirements should be in detail today.

The first deliverable should be education by the Board itself. The inspection program gives the PCAOB a view of practice that no investor and no audit committee have access to. The PCAOB is unique in this regard as it is the only audit regulator who both inspects and develops auditing standards[31]. The PCAOB can see which tools are in use, in which areas of the audit, on which assertions, with what human involvement, and with what limitations.

Publishing that view, at the level of practice rather than individual firms, is the precondition for informed comment by investors and for sensible standard setting afterwards. Other regulators appear ahead of the Board on this issue. The UK Financial Reporting Council has issued two rounds of guidance to audit firms on the use of artificial intelligence, in June 2025 and March 2026[32]. The PCAOB has published none of these. The PCAOB has studied "around" the issue of data and technology for nearly a decade – but not really done so in sufficient detail for standard setting.

We believe the Board needs to get down to the details regarding how AI is being used by audit area and audit assertion (i.e., completeness, existence, accuracy, valuation, ownership and presentation). This is what investors need to know to evaluate the quality of audits and understand how the standards need to shift to protect their interests.

A general statement in a transparency report that a firm uses AI tells an investor nothing. Knowing that AI tools materially contributed to the audit of a particularly challenging area (e.g., valuation testing of hard-to-value instruments, under a described level of human supervision) tells an investor something they can use, and it connects directly to the engagement metrics project discussed above and how it should evolve over time.

---

[30] We note the PCAOB staff published a July 2024 spotlight based on limited outreach to audit firms and preparers. It reported that generative-AI use in audits was then focused primarily on administrative and research activities and that firms did not view PCAOB standards as impediments. Because practice is evolving quickly, the Board should update that work using inspections, broader outreach, and engagement-level evidence.

[31] The FRC adapts standards from the IAASB.

[32] Financial Reporting Council, Guidance on the Use of Artificial Intelligence in Audit (26 June 2025), published alongside its Thematic Review on the Certification of Automated Tools and Techniques covering the six largest UK audit firms; and Guidance for Audit Firms on the Use of Generative and Agentic AI in Audit Engagements (March 2026), which the FRC describes as the first such guidance issued by any audit regulator.

In our view accountability and responsibility do not transfer when using AI – an AI-assisted procedure remains the auditor's procedure – and the engagement partner's responsibilities for supervision and review extend to understanding, at an appropriate level, how the tool reached its output or conclusions. Documentation must make AI involvement visible: the workpapers should identify where AI tools contributed materially to evidence or conclusions, in enough detail for an inspector to evaluate the work. That is an audit evidence (audit trail) requirement, not a technology mandate.

As to which existing standards may prove unfit for purpose (Question 10) that is not something anyone but the audit firms can comment upon at this stage. This should be an output of the research that informs the standard setting.

On the face of the literature, three areas seem most likely to require attention:

1) AS 1105, *Audit Evidence* because what constitutes ***appropriate audit evidenc***e becomes harder to apply when the evidence is the output of a model;
2) AS 2305, *Substantive Analytical Procedures* because ***substantive analytical procedures*** are where AI-assisted work may be most readily applied; and
3) AS 1215, *Audit Documentation* because ***documentation*** designed for human procedures may not capture machine-assisted ones.

Separately, an audited entity's own application of AI in estimates, internal control and the preparation of reported information changes what can go wrong in the financial statements and the application of AS 2110, *Identifying and Assessing Risks of Material Misstatement* and AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* in that environment deserves early attention.

Digital Assets (Question 11)

Before committing substantial standard-setting capacity to digital assets, the Board should assess the prevalence and materiality of digital-asset exposures among issuers and compare the resulting investor risk with other pending projects that have waited more than twenty years for modernization and whether such a project should be ahead of two projects that have already been proposed and withdrawn. The request cites the 2025 report of the President's Working Group on Digital Asset Markets, but policy prominence alone does not establish the scale of the auditing problem.[33]

In our comment letter to the FASB on its agenda consultation last summer, we noted that the evidence suggests this issue is not pervasive within financial statements. A limited number of public companies hold material digital-asset positions and a review of S&P 500 filings for references to crypto assets, digital assets, bitcoin and stablecoins shows the affected population to be small. The PCAOB should develop its own analytical data before including it in such a consultation.

[33] Standard Setting RFC, p. 11 n. 20, citing The White House, Strengthening American Leadership in Digital Financial Technology, at 59 (2025).

Where an engagement includes material digital assets, the principal issues often concern existence, rights and obligations, control, valuation, fraud risk, and the reliability of evidence obtained from custodians or distributed ledgers. Existing requirements in AS 1105, *Audit Evidence,* and AS 2310*, The Auditor's Use of Confirmations*, provide a starting point. The Board could first issue targeted guidance on applying those requirements, including the limits of proof-of-reserves reports and circumstances requiring specialists.

If research and inspection evidence show that existing requirements and guidance cannot provide sufficient appropriate evidence for material digital-asset exposures, the Board should publish that evidence and proceed to standard setting.

We do not currently see a demonstrated basis for placing a broad digital-assets project ahead of metrics, NOCLAR, fraud, or going concern.

THE BOARD'S APPROACH TO STANDARD SETTING

CONCEPTUAL FRAMEWORK, STANDARD-SETTING PROCESS AND OTHER STANDARD SETTERS

A Conceptual Framework (Questions 12 to 16)

We support, in principle, a conceptual framework for PCAOB standard setting,[34] but we do not recommend that the Board make it an immediate, capacity-intensive project given its scarce standard-setting capacity. Four reasons inform that judgment:

1. ***Integration of Conceptual Framework into Existing Standards.*** A conceptual framework only has real value if standards, after its development, are brought into line with the framework. Without that, the framework describes an idealized state rather than governing the actual state of the standards. The Board would be adopting a conceptual framework while more than twenty standards inherited in 2003 remain unmodernized, so the gap between the framework and the literature it purports to govern would exist from the day it was published. Without an implementation path, it could describe an aspirational system while numerous interim standards remain substantially unmodernized.

2. ***A Conceptual Framework Which Preserves All Existing Choices (Optionality) is Not a Conceptual Framework.*** A framework that preserves every existing choice as an available option is not a framework but a menu. The optionality that characterizes parts of the US GAAP conceptual framework, such as the coexistence of amortized cost and fair value measurement for similar positions, shows how frameworks accommodate rather than discipline standard setting when they are written around the practice that already exists. A related risk is generality: frameworks pitched at a high level of abstraction can leave the hardest standard-setting choices exactly where they were. It should be sufficiently specific to

[34] Standard Setting RFC, Conceptual Framework, p. 12-14.

help the Board resolve difficult questions while allowing justified differences based on risk, entity circumstances, and evidence.

3. ***Must Be Foundational.*** A conceptual framework is a foundational document. It would shape standard setting for decades, be difficult to change once adopted, and set the terms on which every existing and later standard is written and judged. Whatever preferences prevail at the time of drafting would be embedded in a text that outlasts them, and that future Boards would have to argue against rather than build upon. We recognize the argument the other way, that without a framework standard setting is left to politics alone, and we would find an investor-centric framework genuinely useful. Our objection is that it seems unusual that the PCAOB would embark on a conceptual framework project when it struggles to complete more than one standard per year.

4. ***Size of Task & Audit Quality Rather Than Investor Protection and Transparency Premise.*** Developing such a conceptual framework is an extensive piece of work. The FASB's concept statements have taken decades to write. Making this exercise more challenging is the framework of the kind the RFC describes. The proposed conceptual framework would rest on the concept of audit quality, which regulators, the profession and investors have been trying to define and measure for decades without reaching agreement. Audit quality is also not the PCAOB's mandate. As noted above, the mission is investor protection. Audit quality is also a premise which fails to recognize investors' desire for transparency so that they can evaluate for themselves the quality of an audit. Audit is a credence good. A conceptual framework based upon an unobservable concept does not advance investors' interests. Undertaken by the Board, this project would absorb the capacity that metrics, fraud, critical audit matters and the interim standards have been waiting on.

We do, however, see a way to make progress without displacing standard-setting priorities. The Board should commission the foundational work rather than perform it: appoint and pay a balanced expert group - academics, former practitioners and investor representatives - to conduct a literature review and produce an initial report on what an auditing standard-setting conceptual framework should contain. This would include addressing transparency and investor protection rather than audit quality as the premise of the conceptual framework. That work could proceed in parallel with the standard-setting priorities above, at modest cost, and would give a future Board a considered starting point rather than a blank page.

If the Board nonetheless proceeds with the conceptual framework effort, we offer four points in answer to Questions 13 to 16:

1. ***Framed by PCAOB Statutory Mission.*** The framework's organizing objective must be the statutory one: protecting investors and the public interest in informative, accurate and independent audit reports, with efficiency, scalability and alignment treated as constraints to be managed in service of that objective rather than as objectives in their own right.

2. ***Additional Qualitative Characteristics.*** As to the qualitative characteristics the RFC lists – clarity, operability, scalability, and inspectability we would add enforceability, investor

protection, comparability across firms and over time, durability under technological change, and whether the information the resulting standards produce is transparent and decision-useful to investors. Additionally, scalability should be defined as a means of meeting the same audit objective, never a lower standard of investor protection from smaller firms.

3. ***Include Economic Analysis Criteria.*** The economic analysis criteria contemplated by Question 15 should be included, codifying the four disciplines set out under Question 7 and committing the Board to post-implementation review.

4. ***Alignment with Other Standard Setters.*** The conceptual framework's alignment policy (Question 16) should follow the approach set out in the next section.

Standard Setting Process (Question 14)

The RFC includes a brief discussion (i.e., pages 12 and 13) regarding comments it received as part of its Strategic Priorities RFC on its standard-setting process and includes a question regarding the standard-setting process alongside its question on the conceptual framework.

We note that the responses above regarding independence and stability of standard-setting; guidance versus standards; economic analysis; effective dates; comment periods; and investor outreach and engagement all relate to the standard-setting process rather than specific standard setting priorities.

However, there are no questions with respect to the needed transparency in the PCAOB standard-setting process. In our 2022 letter to the then newly appointed PCAOB we noted the following as important elements of enhancing transparency and accountability of the Board:

- ***Transparency and Accountability*** – *The PCAOB should adopt rules to enhance its transparency and accountability for the benefit of investors.*
- ***Public Meetings*** – *The PCAOB's Chairman can elect to hold meetings publicly or behind closed doors with the exception that current rules require one public meeting each calendar quarter. The PCAOB, under the prior leadership, however, did not uphold this rule. This approach should be rectified under the current administration.*

  Further, the PCAOB should amend its rules to adopt similar measures of transparency required of government agencies, including provisions for holding open meetings, publishing the timing of closed meetings (and the nature of any exemption from holding an open meeting), and disclosing member votes.
- ***Meetings with Regulated Entities*** – *The PCAOB members and staff meet with regulated entities (e.g., the audit firms it oversees) without transparency. This could undermine the perception of the PCAOB's independence from the audit profession. The PCAOB should provide public disclosure of meetings with stakeholders, particularly with regulated entities.*
- ***Chair Calendar*** – *The PCAOB Chair should publicly disclose a calendar (similar to the one published by the SEC Chair) detailing activities and meetings with staff and other PCAOB Board members.*

We note that the PCAOB's standard setting process is uniquely opaque compared to other standard setters such as the IAASB, PIOB, IASB, ISSB and FASB. While the PCAOB holds public meetings, these meetings do not include a discussion amongst board members of their preliminary views or decisions, summaries of comment-letter feedback, outreach undertaken, and explanations of changes between proposal and adoption that would improve accountability and allow stakeholders to understand how evidence affected the Board's decisions. We believe this is an important element of transparency that is needed and is standard practice amongst other standard setters.

We also think transparency features like those used at the SEC regarding meetings with the Chair and with regulated entities would enhance transparency and trust with investors.

ALIGNMENT WITH INTERNATIONAL AUDITING STANDARDS

Alignment with International Standards (Questions 17 to 21)

Our test for alignment is whether it improves the quality, enforceability, and usefulness of requirements applicable to U.S. public-company audits – not uniformity for its own sake. Alignment is worth pursuing where it raises the requirements that apply to US audits, and not otherwise.

On priorities (Question 17), the strongest candidates are the areas where the international standard is more current than the PCAOB's.

- Fraud is the clearest: ISA 240 (Revised) was completed in 2025, while AS 2401, *Consideration of Fraud in a Financial Statement Audit* dates from 2003.
- Noncompliance with laws and regulations is the second, where ISA 250 offers a more recently developed model than AS 2405, *Illegal Acts by Clients*.

While more current, the PCAOB needs to assess whether the international standard is 'more developed' or more protective than US standards which requires a provision-by-provision comparison and evidence about implementation.
In making those assessments, the most useful evidence is not the text of the international standards but the record of how they have worked: inspection findings and audit failures in the jurisdictions that apply them. Where that record shows an approach producing better outcomes for investors, the case for alignment may be more supportable. Where it does not, similarity of wording is not necessarily a benefit. We would encourage the Board to make that evidence, rather than textual comparison, the basis of its analysis. Such evidence can strengthen an alignment decision, although cross-jurisdiction comparisons require care because legal, liability, reporting, and oversight systems differ.

Direction matters as much as substance (Question 18). Alignment should generally be considered prospectively when a standard is developed or revised. A completed standard should not be reopened solely because a different international formulation exists; new evidence should show that revision would improve investor protection or audit performance. Conversely, a stricter international requirement should not be rejected merely because the PCAOB's existing text differs.

CFA Institute

Where a standard has been through notice-and-comment rulemaking, and alignment arguments were made, weighed and answered at the time, reopening it on alignment grounds should require new evidence rather than a change of preference.

Conforming adopted standards downward to an international baseline is deregulation by another name, and the Board's current experience in the QC 1000 docket shows how quickly that erodes confidence in the durability of what it adopts.

On collaboration (Question 19), we support structured collaboration through observer participation, coordinated research, and aligned timelines where agendas overlap, provided the PCAOB retains independent judgment and satisfies its statutory and SEC-oversight requirements.

On other reasons for divergence (Question 20), we would add two to the Board’s list:

- the PCAOB’s distinct inspection and enforcement model, since its standards are written to be inspected and enforced by the Board itself while the application of ISAs depends on each local regime; and
- the differing litigation environments.

On smaller firms (Question 21), effects on smaller firms should be evaluated with evidence. Alignment may reduce methodology differences for global networks, but it is not necessarily cost-neutral for U.S.-only firms. The economic analysis should identify transition, training, methodology, and ongoing costs by firm type and weigh them against expected audit-quality and investor-protection benefits.

THE SEC'S SEMIANNUAL REPORTING PROPOSAL AND AS 6101 (QUESTIONS 22 TO 24)

CFA Institute opposes the move to optional semiannual reporting, for the reasons set out in our comment letter to the SEC on that proposal: less frequent reporting leaves investors acting on older information, widens the information advantage held by those with private access, and weakens market discipline. Investors bear the costs of all three.

We therefore do not offer views on how AS 6101, *Letters for Underwriters and Certain Other Requesting Parties*, or AS 4105, *Reviews of Interim Financial Information*, might be recalibrated to accommodate a semiannual regime,[35] because to do so would accept a premise we reject. Should the SEC nonetheless adopt the proposal, we would expect the Board to consult separately on any conforming amendments, and we would respond at that stage.

* * * * *

Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org and manoj.mahanama@cfainstitute.org.

Sincerely,

Sandra J. Peters, CPA, CFA
Senior Head
Corporate Disclosures and Information Advocacy
CFA Institute

Manoj Mahanama, ACA
Manager
Corporate Disclosures and Information Advocacy
CFA Institute

[35] Standard Setting RFC, Potential Impact of Recent SEC Proposal to Allow Optional Semiannual Reporting, p. 16-17.