

August 31, 2024

Ms. Phoebe W. Brown  
Office of Secretary  
Public Company Accounting Oversight Board  
1616 K Street, NW  
Washington, DC 20006-2803

**Re: PCAOB Rulemaking Docket Matter No. 055, *Firm Reporting***

CFA Institute<sup>1</sup> appreciates the opportunity to comment on the Public Company Accounting Oversight Board’s (“PCAOB” or “Board”) on the PCAOB’s Release No. 2024-003<sup>2</sup>, PCAOB Rulemaking Docket Matter No. 055, [Firm Reporting](#), (the “Proposal” or “Firm Reporting Proposal”).

CFA Institute is providing comments on the Proposal 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 membership who invest both locally and globally.

We laud the PCAOB for undertaking an update of firm reporting in conjunction with the Board’s work related to firm and engagement reporting metrics under PCAOB’s Release No. 2024-002, PCAOB Rulemaking Docket Matter No. 041<sup>3</sup>, [Firm and Engagement Metrics](#), (the “Metrics Proposal”). This letter should be read in conjunction with [our response to the Metrics Proposal](#) – particularly the overarching considerations section of that letter where we provide background regarding investor pursuit of greater transparency for investors at both the firm and engagement level. We see this Proposal as a natural extension of that transparency process.

This letter provides observations related to specific proposed firm reporting reforms<sup>4</sup> after addressing several overarching considerations.

---

<sup>1</sup> With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 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 <http://www.cfainstitute.org> or follow us on [LinkedIn](#) and [X](#).

<sup>2</sup> [PCAOB Issues Proposals on Standardizing Disclosure of Firm and Engagement Metrics and Modernizing the PCAOB’s Reporting Framework | PCAOB \(pcaobus.org\)](#)

<sup>3</sup> [Docket 041 | PCAOB \(pcaobus.org\)](#)

<sup>4</sup> We link here to the [PCAOB reporting page](#) where the forms, instructions and related matters are included, and we link specifically to:

- [Form 1](#) (Registration);
- [Form 2](#), (Annual Report);
- [Form 3](#) (Special Report);

## OVERARCHING CONSIDERATIONS

As we note above, this letter should be read in conjunction with [our response to the Metrics Proposal](#) – particularly the overarching considerations section of that letter where we provide background regarding investor pursuit of greater transparency for investors at both the firm and engagement level.

As an overall matter, we find the Board’s firm reporting proposals to be consistent with the basic elements of good corporate governance and, as such, serve the best interests of stakeholders such as audit clients, regulators, and ultimately investors, who rely on audited financial statements to make critical investing decisions. CFA continues to advocate for comprehensive written and fully disclosed corporate governance procedures by registered firms in order to hold firms accountable to their clients (i.e., investors) and ultimately to the investing public. This is no different from what we advocate for public companies and in fact is generally viewed as “ordinary course” procedures by them. In fact, in many instances, we were surprised to find that these procedures are not already required of the auditing firms. A comprehensive system of corporate governance also helps firms manage their risks and thereby helps improve their performance in the long run.

Supreme Court Justice Louis Brandeis famously stated that “sunlight is the best disinfectant,” enshrining a principle of transparency as a cornerstone for open democracy and good governance. We believe that these proposals are consistent with promoting transparency among registered firms. We are aware that some of this information may already be provided on a voluntary basis by the larger firms. However, consistent with our response to the Metrics Proposal, we support requiring this information and setting out a standardized format, as it promotes the comparability of information collected, which ultimately benefits all users of this information.

## SPECIFIC COMMENTS

***Revisions to Form 2 (Annual Reports)*** – We consider the key changes in the annual reporting as follows.

***Financial Information: Fee Information*** – We are fully supportive of the disclosure of fee information by amount, rather than by percentage, in the proposed level of disaggregation. We believe that requiring reporting in actual dollar amounts, rather than percentages, and providing more complete and further disaggregated fee information, will prove useful to investors, audit

- 
- [Form 4](#) (Transfer to Successor Registration);
  - The [Registration, Annual Report and Special Report Search Page](#) (Example Search: [KPMG LLP US](#))
  - [Form AP](#) (Auditor Participants) including the related [Auditor Search Database](#) which provides public access to information provided on Form AP;

for ease of reference and to consider the proposed changes in context of the existing reporting requirements and the public accessibility to such information.



committees, and other stakeholders in understanding a firm’s audit practice, individually and relative to other services provided. By presenting the dollar amounts in these captions, investors and audit committees will be able to ascertain what percentage of the respective fees the issuer represents of the respective firm and enable an understanding of the concentration risk.

It is not explicitly stated that the disaggregated amounts will reconcile to the total firm fee revenue. This should be explicitly stated.

We presume all consulting services for audit and non-audit clients will be included within “fees for non-audit” services enabling clients of the firm (i.e., investors) to ascertain the relative size of the firm’s audit and non-audit practices. This is information, which would be required by segment disclosures of public companies and appears reasonable given the importance of the firms to the public markets.

Further, we agree that requiring this information on Form 2 would increase the standardization and comparability of the financial information available to the PCAOB, investors, audit committees, and other stakeholders across the audit market.

***Financial Statements*** – We support the requirement for larger firms to provide annual financial statements to the PCAOB on a confidential basis. We believe that the requirement that financial statements be reported in accordance with the applicable financial reporting framework in the firm’s jurisdiction (i.e., either U.S. GAAP or IFRS, exclusively) should not prove overly challenging for firms, given that this is their core competency, especially given the scope restriction, the fact that there is no proposed requirement that the financial statements be audited, and in light of the three-year transition period, which we believe is reasonable. Such a requirement will allow the PCAOB to compare the larger firms on a level-playing field and permit the Board to assess the financial stability and wherewithal of its member firms, as well as understand the significance of the audit function to the firm’s overall operations. We believe this type of oversight and monitoring is critical given the significance of the largest firms to the audit market and the consequences of such a firm exiting the market, as well as the potential risks to the integrity of the audit process for firms that are experiencing financial distress. In addition, we suggest the Board consider a requirement for the firms to provide some type of narrative analysis of their financial condition, results of operations, and cash flow, similar to Management’s Discussion and Analysis (MD&A) for SEC registrants, that would allow for firm commentary regarding forward-looking assessments of the member firms.

***Governance Information*** – We support the requirement to provide additional information regarding a firm’s legal, ownership, and governance structure as we concur that there is often a direct relationship between firm leadership and governance and its audit quality. It is, therefore, of fundamental importance to understanding and assessing an audit firm and its ability to deliver audit services.

We believe that the disclosure of the names and titles of various officers of the firm is a relatively trivial requirement that nonetheless has important benefits to stakeholders. Simply put, identification of key governance officers creates greater accountability for such individuals.

We believe that the proposed governance reporting, and especially the additional information regarding a firm's External Quality Control Function ("EQCF"), would enhance the PCAOB's regulatory function by providing it with additional information regarding member firms' QC systems. Enhanced governance information would also allow investors, audit committees, and other stakeholders to better understand the practices of firms and differentiate among firms with respect to, for example, leadership, oversight of the audit practice, oversight of auditor independence practices, and board of directors composition, including independence of directors. Governance reporting would provide more information to allow stakeholders to understand internal firm processes and priorities that may influence a firm's provision of audit services, and would create more opportunities for engagement between audit firms and audit committees, investors, and other stakeholders, which could also impact a firm's approach to governance. Further, we have seen that by requiring such information to be reported, firms often take the opportunity to review their governance structure and identify areas for remediation and improvement.

***Network Information*** – We support the greater specificity in reporting on network arrangements. As noted, most public company audits are conducted by firms with network affiliations, and the existence of these affiliations/networks are often marketed by Big 4 firms as a key distinguishing factor when pitching their services to new clients. Information regarding the legal and ownership structure of the network and especially regarding network-related financial arrangements (e.g., loans and funding arrangements to or from the network member firm) as well as information-sharing arrangements between the firm and the network are critical to know, especially given recent high-profile fines and sanctions levied by foreign governments on network affiliates. Such fines and sanctions can affect the primary auditor's financial condition as well as its ability to perform audits using the network going forward.

In addition, reporting on information sharing between the firm and its network would allow stakeholders to better understand how information, including shareholder and issuer information, may be shared in the network, and whether such sharing can potentially create trust issues. Further, we believe enhanced network reporting would inform the PCAOB's regulatory function, as it would provide information regarding how the network arrangement influences the firm's governance and accountability, including oversight of its audit practice, and access to resources, such as the methodology, tools, and technology used in audits and network-related financial arrangements.

***Revisions to Form 3 (Special Reports)*** – We agree that contemporaneous reporting of specified events serves both the Board's regulatory function and the public interest, and support the proposed acceleration in reporting to 14 days (or more promptly as warranted), as well as the general reporting obligation for any event or matter that poses a material risk, or represents a material change, to the firm's organization, operations, liquidity or financial resources, or the



provision of audit services. The list of types of matters requiring special reporting appears consistent with the types of matters that require reporting on SEC Form 8-K, “Current Report,” for public companies, a framework that we believe is well-understood and has served investors well over the years. Again, given that a deep understanding of this reporting requirement is a core competency of member firms, we believe that it should be relatively easy for member firms to comply with.

*Cybersecurity Reporting* – We support the proposed cybersecurity incident reporting as well as the proposed disclosures regarding cybersecurity policies and procedures. Reporting of significant cybersecurity incident information would appear to be critical to the PCAOB’s regulatory oversight role. We do not believe that such reporting need be made public; confidential reporting is sufficient. The disclosure of cybersecurity policies and procedures would appear to be a fundamental part of disclosure of corporate governance procedures. We believe the proposal as drafted is clear and provides a good starting point for disclosure; the Board can revisit these disclosures in the future to determine whether any revisions are necessary.

\*\*\*\*\*

Thank you again for the opportunity to comment. Please do not hesitate to contact us should you have any questions regarding our comments or wish to discuss them further.

Sincerely,

CFA Institute