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## The Dangers of Folding the PCAOB Into the SEC

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The House Financial Services Committee’s reconciliation bill for fiscal year 2025 (FY25) proposes to abolish the Public Company Accounting Oversight Board (PCAOB) and fold it into the Securities and Exchange Commission (SEC). The proposal follows Project 2025’s [call](#) to abolish the PCAOB and transfer its functions to the SEC. Such a change is dangerous and misguided for a number of reasons:

**It would undermine the integrity of inspections of public company and broker-dealer audit firms at a time when market volatility is high and investors need access to quality financial information more than ever.**

The PCAOB was created after accounting scandals rocked U.S. financial markets in the late 1990s and early 2000s. Companies like Enron, WorldCom, Tyco and Adelphia wiped out investors’ savings and destroyed thousands of jobs by cooking the books. The fall of [Enron](#) alone cost almost 20,000 jobs and more than \$2.1 billion in retirement assets to its employees, as well as about \$67 billion to its shareholders. [WorldCom](#) cost its shareholders about \$180 billion. The failure of these companies exposed that self-regulation of the audit industry had failed: none of these failed companies’ auditors caught and stopped their accounting misconduct before they harmed shareholders, workers and the broader economy. Therefore, on a bipartisan basis, Congress created a new Board to write audit standards, register and inspect audit firms and enforce their rules with disciplinary proceedings against firms and individuals that engage in wrongdoing.

This is not the first time that, once memories of the Enron and WorldCom scandals faded, the PCAOB has been targeted. Five years ago, the White House proposed that the SEC absorb the functions of the PCAOB. The proposal was not adopted, due in large part to [concerns](#) that doing so would “weaken oversight of large auditing firms such as Deloitte, Ernst & Young, KPMG and Pricewaterhouse Coopers, which are paid by the companies they audit and can be exposed to conflicts of interest.”

Today, it is especially concerning that lawmakers would propose abolishing the PCAOB given that the stock market is experiencing tremendous amounts of volatility. One *ABC News* [headline](#) from this week read, “Market turmoil has many afraid to check retirement savings.” Even well-off Americans are panicking, with the *Wall Street Journal* [reporting](#) that “financial advisers who serve wealthy clients say they have been bombarded by investor calls over the past week, recalling for

them tumult such as the 2008-09 financial crisis and the March 2020 onset of the Covid-19 pandemic.”

When markets are in crisis, firms may be more incented to use accounting tricks to smooth over volatility and make their firms look healthier than they really are. And with investors already fearing what may happen to their savings, now is not the time to abolish the dedicated Board entrusted with ensuring that rigorous and quality audit inspections take place.

### **It would eliminate the PCAOB at a time when it has been at its most effective.**


It perhaps should not be surprising that the idea of transferring the functions of the PCAOB to the SEC is being resurrected now. In the last few years, the Board [has](#) built up its inspections of accounting firms, found more deficiencies in audit work, and imposed heavier penalties for the worst failings.



When this idea was proposed five years ago, there was a [concern](#) that the result would be cutbacks to auditor oversight and enforcement and that such cutbacks would be most prevalent in inspections and enforcement. But the Board’s inspections are possibly its [most effective tool](#) in improving audit quality. The Board should not be abolished at a time when it is proving its worth.

### **It would give China-based audit firms a free pass.**

Congress in 2020 passed the Holding Foreign Companies Accountable Act (HFCAA) to require the PCAOB to inspect and investigate audit firms in foreign jurisdictions that perform audits of companies that trade on U.S. stock exchanges. If those audit firms could not or would not be inspected by the PCAOB, the SEC – in two years time – would need to delist those companies from



trading in the U.S. The HFCAA was motivated by concerns that China-based audit firms were conducting phony audits of companies that had access to the U.S. capital markets.

Since Congress passed that law, the PCAOB entered into an MOU with the Chinese securities regulator to ensure that U.S. inspectors were permitted to get access to the books and records they need to ensure that audit firms are properly inspected. Those inspections have been proceeding since 2023. Should this reconciliation package be enacted and the PCAOB abolished, the counterparty to the MOU with the Chinese would cease to exist and it would need to be renegotiated with the SEC. It is unlikely that the Chinese authorities would give direct access to books and records of China-based firms directly to U.S. government personnel; in fact, the layer of insulation provided by the PCAOB was likely critical to the successful completion of the MOU. And even if the Chinese did negotiate with the U.S., there is likely not enough time to effectuate a new MOU before companies would be delisted from U.S. markets. This type of uncertainty and turmoil would only add to the chaos during the current trade war.

#### **It would not save taxpayers money and might even cost money.**

The budget gimmick in this reconciliation won't even accrue real savings. First, the PCAOB is paid for by fees on the audit industry and firms that receive audits – not taxpayers. Second, by folding the functions into the SEC, Congress would only be creating more work to effectuate the transition and deal with the massive project of merging two bureaucracies. SEC employees, in fact, get more generous retirement benefits than PCAOB employees. This change may incent employees to take early retirement in order to benefit from the government's pension benefits.


Folding the functions of the PCAOB into the SEC would also not make auditing oversight more efficient. Instead, because the SEC does not have the personnel to review accounting firms' auditing work, it would have to hire essentially [the same people](#) who now work at the PCAOB. Otherwise, the SEC would not be able to [replicate](#) the scope, magnitude, and rigor of the PCAOB's regulatory activities.

In this regard, it is important to note that one of the rationales often given for eliminating the PCAOB is that its work is [duplicative](#) of the SEC. But research shows that the PCAOB and SEC engage in [complementary](#), not duplicative, enforcement efforts.

Finally, this change would result in some perverse cost-shifting within the financial services industry. While the PCAOB is paid for by [fees](#) on audit firms and firms that receive audits, the SEC is paid for by [fees](#) on broker-dealers that transact in securities markets. So the end result of this policy change would be to charge broker-dealers approximately \$400 million currently being charged to the audit industry and audited firms – an unfair burden shifting within the financial services industry.

#### **It would also hobble the SEC.**

The bill sponsors purport that the functions could simply be folded into the SEC. It is unclear if the SEC is supposed to collect more offsetting fees to pay for all these new functions or keep



collecting the same amount and just stretch the budget thin. If the former, then this reconciliation package saves no money and simply cost-shifts fees from audit firms (and firms they audit) to the broker-dealer industry. If the latter, then the SEC's [\\$2.1 billion](#) budget is supposed to absorb [\\$400 million](#) in costs with no impact on current functions. This would amount to a 20% cut of the SEC at a time when the agency already has operated under a Continuing Resolution for many years and been subject to a hiring freeze, not to mention the [16% cut](#) in headcount driven by DOGE. The SEC would simply stop conducting functions it is meant to conduct, misconduct in the securities industry would increase, and investor protection and market integrity would suffer.

The SEC would also have to add the PCAOB's functions to its existing mission. So instead of having one regulator devoted to auditing overnight, auditing oversight would be [just one priority among many](#). One reason this idea did not come to fruition five years ago is the concern that the proposal would [reduce the total resources available for auditor oversight](#), and there is even more reason to be concerned that this would be the result of folding the PCAOB into the SEC today.

**[It would create legal uncertainty and ambiguity that has not been well thought-through.](#)**

Changes as significant as eliminating a Board that has existed for more than 20 years cannot be effectuated through two pages of legislation. There are unique legal and constitutional issues related to the PCAOB that have not been thought through in this legislation. For example, rules around the confidentiality of supervisory information are different at the SEC and the PCAOB and may conflict. The Board also includes a 5-member voting commission that is unchanged by this reconciliation bill. What happens to those individuals and how do their authorities interact with being taken over by the SEC? Moreover, the SEC is currently the appellate body that reviews PCAOB decisions before they can be litigated in court. How would that now work? Haphazard legislative changes are not the way to sort through these complicated legal questions.

**[It violates the will of Congress by making impermissible changes to auditing and accounting standards on legislation meant to narrowly focus on the budget.](#)**

Changes this broad and significant cannot be effectuated via a budget bill. Moreover, Congress has delegated to the PCAOB other duties, including implementing the Holding Foreign Companies Accountable Act, that may conflict with this reconciliation bill. If Congress wants to abolish the PCAOB it should do so through regular order with standalone legislation.



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