

May 21, 2025

The Honorable Jodey Arrington
Chairman
Committee on the Budget
U.S. House of Representatives

The Honorable Brendan Boyle
Ranking Member
Committee on the Budget
U.S. House of Representatives

The Honorable French Hill
Chairman
Committee on Financial Services
U.S. House of Representatives

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives

The Honorable Lindsey Graham
Chairman
Committee on the Budget
U.S. Senate

The Honorable Jeff Merkley
Ranking Member
Committee on the Budget
U.S. Senate

The Honorable Tim Scott
Chairman
Committee on Banking, Housing, and Urban
Affairs
U.S. Senate

The Honorable Elizabeth Warren
Ranking Member
Committee on Banking, Housing, and Urban
Affairs
U.S. Senate

Subject: Concerns Regarding Section 50002 of the Committee Print to Eliminate the PCAOB
Referenced as “Sec. 50002 of Title V (House Financial Services Committee) of H. Con.
Res. 14, the Concurrent Resolution on the Budget for Fiscal Year 2025”

Dear Chairmen Arrington, Hill, Graham, and Scott and Ranking Members Waters, Boyle,
Merkley, and Warren:

We respectfully convey our concerns regarding the proposed elimination of the Public Company Accounting Oversight Board (PCAOB). We are academics who primarily teach to undergraduate and graduate students in the U.S. and around the world. We also research questions that bear on information, regulation, and the role of financial reporting in the effective functioning of U.S. capital markets, with implications for audit oversight from the PCAOB. We believe that this background provides both a unique perspective on the importance to forthcoming generations of

students regarding the stability of regulatory institutions, and a practical opinion on the state of evidence from economic research. We communicate to students the importance and relevance of audit oversight for financial reporting and the functioning of U.S. capital markets. And we have found through research that audit oversight from independent and specialist organizations raises the efficiency of capital markets via improvements and greater investor confidence in information and financial reporting quality.

As you know, the PCAOB was created on a bipartisan basis in the aftermath of substantial financial reporting misconduct in the early 2000s, resulting in the bankruptcy and collapse of major companies and Arthur Andersen, an accounting firm. This misconduct harmed the credibility of financial reporting and had significant, negative implications for the functioning of U.S. capital markets. Further, it called into question the conduct of accounting firms in their audit work. These effects were so devastating because credible reporting of financial information has been the cornerstone of U.S. capital markets. U.S. capital markets have been the envy of the world precisely because of the regulatory framework that has allowed these markets to develop and flourish, and to promote capital formation and employment opportunities.

Since its creation, substantial research evidence indicates that the PCAOB's inspections, enforcement, and standard setting improve the quality of audits and both the quality and credibility of financial reporting, sometimes with nuance (Lamoreaux 2016; DeFond and Lennox 2017; Fung, et al. 2017; Krishnan, et al. 2017; Aobdia 2018, 2020; Stuber and Hogan 2021; Hanlon and Shroff 2022; Lamoreaux, et al. 2023). More critically, the PCAOB enhances activity in and efficiency of capital markets (Gipper, et al. 2020; Lamoreaux, et al. 2020; Shroff 2020). These improvements in audit quality and capital market function align with the legislative intent of the 107th U.S. Congress in establishing the PCAOB.

Respectfully, we submit that the PCAOB should not be eliminated with some of its work folded into the Securities and Exchange Commission (SEC). When the PCAOB was established, serious consideration was given to its form and relation to the SEC. We are concerned that the same deliberative consideration is absent from Sec. 50002 given the terse nature of the legislation's language and the hasty passage through committee markup. We think any regulatory entity, like the PCAOB, should be subject to close scrutiny and thoughtfully reformed where opportunities for improvement are identified. In its current form, the PCAOB performs a vital role in U.S. capital markets through its oversight of public company audits as shown in the academic work cited above. We urge you to consider the potential repercussions of this plan, especially the impact on the public's trust in capital markets and the credibility of financial reporting. We appreciate your consideration of our views on this matter.

Signed,

Christopher P. Agoglia,
Richard H. Simpson Endowed Professor
University of Massachusetts Amherst

Dr. Anne Albrecht,
Associate Professor of Accounting
Texas Christian University

Lindsay M. Andiola, Ph.D, CPA
Virginia Commonwealth University

Andrew D. Bailey, Jr
University of Illinois, Urbana/Champaign,
Emeritus

James Bierstaker,
Professor of Accounting
Villanova University

Justin Blann
Georgia Institute of Technology

Veena Brown
University of Wisconsin-Milwaukee

Vincent Castellani,
Assistant Professor
University at Buffalo

Agnes Cheng,
Dale Looper Professor in Accounting
University of Oklahoma

Preeti Choudhary
University of Arizona

Lauren Cunningham, PhD, CPA (TN)
University of Tennessee, Knoxville

Dr. Aishwarya Deore
Georgetown University

Matthew Ege,
Professor of Accounting
Texas A&M University

Henry Friedman,
Professor
UCLA Anderson School of Management

Cristina Alberti
Babson College

Jennifer LM Altamuro, Ph.D
Villanova University

Scott Asay, PhD
University of Iowa

Matthew Baugh,
Assistant Professor
Arizona State University

Terrence Blackburne
Oregon State University

Joseph F. Brazel,
Jenkins Distinguished Professor of Accounting
North Carolina State University

Nate Cannon, Ph.D., CPA
Texas State University

Shannon Chen,
Assistant Professor of Accounting
University of Arizona

Jongwoon (Willie) Choi, PhD
University of Wisconsin-Madison

Robert A. Conway, CPA and Expert Witness
Independent Contractor

Mark DeFond
University of Southern California

Denise Downey,
KPMG Endowed Professor in Accounting
Villanova University

Yun Fan, Ph.D.
University of Oklahoma

Simon Yu Kit Fung,
Professor of Accounting
Deakin University, Australia

Lindsey A. Gallo
University of Michigan

Brandon Gipper
Stanford University

Nathan Goldman,
Associate Professor
North Carolina State University

Paul Griffin,
Emeritus Distinguished Professor of
Management
University of California, Davis

Colleen Honigsberg
Stanford

Andrew Imdieke
University of Notre Dame

Alan Jagolinzer
University of Cambridge

Alex Johanns,
Assistant Professor
University of Kentucky

Kathryn Kadous,
Schaefer Chaired Professor of Accounting
Emory University, Goizueta Business School

Andrew Kitto,
Assistant Professor
University of Massachusetts Amherst

Zachary T. Kowaleski
University of Texas at Austin

Jayanthi Krishnan,
Professor and Merves Senior Research Fellow
Temple University

Christian Leuz,
Charles F Pohl Distinguished Service Professor
of Accounting and Finance
University of Chicago, Booth School of
Business

Weili Ge,
Professor of Accounting
University of Washington

Cristi Gleason,
Professor of Accounting
University of Iowa

Emily Griffith,
Associate Professor of Accounting
University of Wisconsin-Madison

Rita Gunn,
Assistant Professor of Business
University of Virginia

Patrick J. Hurley,
Associate Professor of Accounting
Northeastern University

Mark Ingram,
Senior Instructor
George Mason University

Jennifer Joe,
Peterson Professor of Accounting
Virginia Tech

Bret A. Johnson, PhD, CPA
George Mason University

Young Kim
George Mason University

Allison Koester,
Associate Professor
Georgetown University

Jagan Krishnan
Temple University

Charles M. C. Lee,
Hanson Professor of Accounting
University of Washington

Chan Li, PhD
University of Kansas

Thomas J. Linsmeier
University of Wisconsin-Madison

Benjamin Luippold
Babson College

Landon Mauler,
Associate Professor
Florida State University

Sarah McVay,
Professor of Accounting
University of Washington

Dr. Tyler Menzer,
Assistant Professor of Accounting
Texas Christian University

Dr. Paul Michas,
Professor of Accounting
University of Arizona

Suresh Nallareddy,
Associate Professor of Accounting
University of Washington

Dr. Kara Obermire,
Associate Professor
Oregon State University

Marietta Peytcheva,
Professor of Accounting
Lehigh University

Claire Quinto, Ph.D., CPA
University of Iowa

Dr. Joe Schroeder
Indiana University

Thomas I. Selling,
PCAOB Standing Advisory Group 2014-2017
American Graduate School of International
Management (retired)

Justin Short, Ph.D., CPA
University of Tennessee

Cathy Zishang Liu
University of Houston Downtown

Eldar Maksymov,
Associate Professor of Accounting
Arizona State University

Maureen McNichols,
Marriner S. Eccles Professor of Accounting and
Public and Private Management,
PCAOB Standing Advisory Group 2014-2019
Stanford Graduate School of Business

Kim Mendoza,
Associate Professor
University of Illinois Urbana Champaign

Miguel Minutti-Meza,
Professor and Accounting Department Chair
University of Miami

Noah Myers,
Assistant Professor of Accounting
Utah Valley University

Dr. Karen Nelson,
M.J. Neeley Professor of Accounting,
PCAOB Standing Advisory Group 2016-2019
Texas Christian University

Mark E. Peecher
University of Illinois Urbana-Champaign

Richard Price,
Director, John T. Steed School of Accounting,
and Associate Professor of Accounting
University of Oklahoma

Dr. Sri Ramamoorti,
Associate Professor
University of Dayton

Timothy Seidel
Brigham Young University

Matthew G. Sherwood, PhD, CPA
University of Massachusetts Amherst

Saad Siddiqui
University of Texas at Austin

Hakjoon Song
California State University Dominguez Hills

Stephen Stubben,
Francis A. Madsen Endowed Professor
University of Utah

Brandon Szerwo,
Assistant Professor
University at Buffalo

Andrea Tillet, PhD
University of Wisconsin-Madison

Qian Wang,
Associate Professor
Iowa State University

Laura Wardwell, CPA
University of Oklahoma

Luke Watson, PhD, CPA
Villanova University

Qiang Wu
The Hong Kong Polytechnic University

Dr. Stephen A. Zeff,
Keith Anderson Professor of Accounting
Rice University

Wei Zhang, Ph.D.
University of Massachusetts Amherst

Ally B. Zimmerman, Ph.D., CPA (OH), CMA,
Associate Professor of Accounting
Florida State University

Sarah Stein,
Associate Professor of Accounting and
Information Systems
Virginia Tech

Lili Sun
University of North Texas

Dr. Amy Tegeler
University of Wisconsin - Milwaukee

Danye Wang, Ph.D.
University of Iowa

Daniel Wangerin
University of Wisconsin-Madison

Terry D Warfield, PhD
University of Wisconsin - Madison

Dr. Kimberly D. Westermann
Cal Poly San Luis Obispo

Nina Xu
University of Connecticut

Professor Karla M. Zehms
University of Wisconsin - Madison

Dan Zhou
University of Illinois Urbana-Champaign

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