



Members of the Investor Advisory Group

Via Email

May 27, 2025

The Honorable John Thune
Senate Majority Leader
317 Russell Senate Office Building
Washington, DC 20510

The Honorable Charles E. Schumer
Senate Minority Leader
322 Hart Senate Office Building
Washington, DC 20510

Re: Public Company Accounting Oversight Board (PCAOB) and Reconciliation Bill

Dear Majority Leader Thune and Minority Leader Schumer:

The Members of the Investor Advisory Group of the PCAOB (MIAG)¹ are writing to urge you to oppose Section 50002 in H.R. 1, To provide for reconciliation pursuant to title II of H. Con. Res. 14 (Reconciliation Bill).²

The MIAG observes that the U.S. capital markets are the most efficient in the world.³ And that is due, in no small part, to the effectiveness of both the Securities and Exchange Commission (SEC or Commission) and the PCAOB.⁴

¹ This letter represents the views of Investor Advisory Group (IAG) and does not necessarily represent the views of all its individual members, or the organizations by which they are employed. IAG views are developed by the members of the group independent of the views of the Public Company Accounting Oversight Board (PCAOB) and its staff. For more information about the IAG, including a listing of the current members, their bios, and the IAG charter, see <https://pcaobus.org/about/advisory-groups/investor-advisory-group>.

² H.R. 1, ___, 119th Cong. § 50002 (May 20, 2025), <https://www.congress.gov/bill/119th-congress/house-bill/1/text>.

³ See, e.g., Letter from Dave Sullivan & Dan Sunderland to the Honorable French Hill, Chairman, House Committee on Financial Services, et al. (May 2, 2025) (on file with IAG) (“We believe that the U.S. capital markets are the most efficient in the world.”).

⁴ See, e.g., *id.* (“That is due, in part, to the effectiveness of both the SEC and the PCAOB.”).

More specifically, the MIAG strongly agrees with the following recent observations of the CFA Institute:

Capital formation and investor protection are intertwined and must be carefully balanced. Certainly, overzealous regulations can impede corporate investment, but a loss of investor protections – such as robust oversight of public company audits – can reduce investors’ appetite for taking risk and may raise the cost of capital for companies.^[5] What is certain is that past accounting scandals resulted in a loss of trust in the capital markets and had a deleterious effect on investment, which is what prompted Congress to create the PCAOB in the first place.⁶

Section 50002 of the Reconciliation Bill would abolish the PCAOB and attempt to re-assign its functions to the SEC while removing all of the funding required to execute those functions.⁷ The MIAG believes this proposed unfunded reassignment will harm investors by reducing investor protection and public trust in the U.S. capital markets.⁸ The remainder of this letter highlights three distinct issues with Section 50002, any one of which should lead to the provision being

⁵ See, e.g., John Coates, et al. Shadow SEC: The PCAOB Should Be Carefully Reviewed, Not Hastily Abolished, CLS Blue Sky Blog (May 14, 2025), <https://clsbluesky.law.columbia.edu/2025/05/14/shadow-sec-the-pcaob-should-be-carefully-reviewed-not-hastily-abolished/> (“By setting standards for auditing, and by inspecting audit firms, it has augmented auditing practices and improved the reliability of financial reporting [and] [t]hat, in turn, has improved capital-market liquidity and lowered the cost of capital.”); cf. Hattem Rjiba, et al., Annual Report Readability and the Cost of Equity Capital, 67 J. Corp. Fin. 101902 (2021), available at <https://www.sciencedirect.com/science/article/abs/pii/S0929119921000237> (finding an association between corporate reporting and the cost of capital).

⁶ Letter from Margaret E. Franklin, CFA, CEO and President, CFA Institute & Sandra Peters, CPA, CFA, Senior Head, Global Financial Policy, CFA Institute to The Honorable French Hill, Chairman, House Committee on Financial Services, et al. 3 (Apr. 29, 2025), https://rpc.cfainstitute.org/sites/default/files/docs/comment-letters/cfa-institute-letter-to-hfs-sbc-re-pcaob_final_final.pdf.

⁷ See § 50002(b) (“(1) all unobligated fees collected under section 109(d) of the Sarbanes-Oxley Act of 2002 shall be transferred to the general fund of the Treasury, and the Commission may not collect fees under such section 109(d); (2) the duties and powers of the Board in effect as of the day before the transfer date, other than those described in section 107 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7217), shall be transferred to the Commission; (3) the Commission may not use funds to carry out section 107 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7217) for activities related to overseeing the Board”); see also Letter from Dave Sullivan & Dan Sunderland to the Honorable French Hill, Chairman, House Committee on Financial Services, et al. 1-2 (“As I read the Reconciliation Bill, it appears that the net result is to move all of the activities of the PCAOB, as delineated in the Sarbanes-Oxley Act of 2002 (SOX) to the Securities and Exchange Commission (SEC) while removing all of the funding to execute those activities.”).

⁸ See Letter from Dave Sullivan & Dan Sunderland to the Honorable French Hill, Chairman, House Committee on Financial Services, et al. (“We believe the result of the Reconciliation Bill, as currently drafted, will be to reduce investor protection and reduce trust in the U.S. capital markets.”); Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services (Apr. 30, 2025) (on file with IAG) (“If adopted, the bill would have a devastating impact on the accuracy and reliability of financial reporting on which investor protection and the health and integrity of our financial markets rely.”).

struck from the Reconciliation Bill. Those three issues are that the provision: (1) would dilute the SEC's ability to perform its mission and the mission of the PCAOB;⁹ (2) would end inspections of auditing firms in China;¹⁰ and (3) would not reduce government spending.¹¹

1. Diluting the SEC's Ability to Perform Its Mission

The MIAG believes audit quality and public company auditor oversight are sufficiently important to investors and the capital markets that they should be the responsibility of an organization that has those issues as its exclusive focus.¹² Section 50002 would saddle the SEC with expansive new responsibilities for audit firm inspections and auditing standard setting and dilute its ability to perform its tripartite mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.¹³

⁹ See Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services ("The result is likely to be dilution of both audit oversight and of the SEC's ability to perform its other investor protection responsibilities.").

¹⁰ See, e.g., Letter from Margaret E. Franklin, CFA, CEO and President, CFA Institute & Sandra Peters, CPA, CFA, Senior Head, Global Financial Policy, CFA Institute to The Honorable French Hill, Chairman, House Committee on Financial Services, et al. at 4 ("In particular, the progress made under the Holding Foreign Companies Accountable Act (HFCAA) to inspect the audits of Chinese companies is all but certain to be lost if this measure is adopted, since the Statement of Protocol between the PCAOB and Chinese securities regulators that enables such inspections would have to be renegotiated.").

¹¹ See, e.g., Letter from Dave Sullivan & Dan Sunderland to the Honorable French Hill, Chairman, House Committee on Financial Services, et al. ("since the funding for the PCAOB comes from US publicly listed companies, and not the US Treasury, the bill will do nothing to reduce the US Government's deficit").

¹² See Dan Goelzer, Save the PCAOB!, Audit Blog (May 1, 2025), <https://medium.com/the-audit-blog/save-the-pcaob-f86e32cd47e4> ("Audit quality and public company auditor oversight are sufficiently important to our capital markets that they should be the responsibility of an organization that has those issues as its exclusive focus.").

¹³ See John Coates, et al., Shadow SEC: The PCAOB Should Be Carefully Reviewed, Not Hastily Abolished, CLS Blue Sky Blog ("At a minimum, taking on the new obligations would take time and distract and reduce the ability of the SEC to pursue its vital existing tasks of overseeing U.S. capital markets."); Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services ("the bill would saddle the SEC with expansive new responsibilities without providing a dime of additional funding, and this at a time when the SEC is suffering severe staffing shortages and a loss, in particular, or senior staff"); Letter from Jen Sisson, Chief Executive, ICGN to The Honorable Senator Tim Scott, Chairman, Senate Committee on Banking, Housing, and Urban Affairs, et al. 2 (May 9, 2025) (on file with IAG) ("Additional responsibilities to fold the work of the PCAOB into the SEC could place strain on the SEC's own workforce and diminish the ability of the SEC to address its own mission and issues that are vital for investors."); see also Mission, SEC (last visited May 9, 2025), <https://www.sec.gov/about/mission> ("Since our founding in 1934 at the height of the Great Depression, we have stayed true to our mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.").

We agree with Dan Goelzer, former SEC General Counsel and Acting Chair of the PCAOB, who, in opposing Section 50002, stated:

I worked for a long time at the SEC. I love the SEC, but it has a tremendous number of things to do...it just can't devote the same level of attention to audit quality that the PCAOB can. . . .¹⁴

At the same time Section 50002 transfers the PCAOB's responsibilities to the SEC, it prohibits the SEC from collecting fees to fund those responsibilities and provides no new source of funding.¹⁵ One commentator has estimated that the SEC's \$2.1 billion budget would need to absorb an additional \$400 million in costs if the PCAOB's responsibilities were transferred to the Commission as contemplated by Section 50002.¹⁶ And this would all occur presumably just months after SEC Chairman Paul Atkins announced that the "agency has lost 15% of its

¹⁴ An Original PCAOB Board Member Makes the Case for the Endangered Audit Overseer, Cap. Acct. (May 9, 2025), https://www.capitolaccountdc.com/p/an-original-pcaob-board-member-makes?utm_campaign=post&utm_medium=web; see Letter from Margaret E. Franklin, CFA, CEO and President, CFA Institute & Sandra Peters, CPA, CFA, Senior Head, Global Financial Policy, CFA Institute to The Honorable French Hill, Chairman, House Committee on Financial Services, et al. at 1 (*"In substance, the oversight of auditors would be eliminated because the SEC has not been provided any funding and does not have the skills, capacity, global inspection agreements – and potentially the authority under its remit – to take on the PCAOB's responsibilities, which include inspections of public company audits."*).

¹⁵ See § 50002(b)(1) ("all unobligated fees collected under section 109(d) of the Sarbanes-Oxley Act of 2002 shall be transferred to the general fund of the Treasury, and the Commission may not collect fees under such section 109(d)"); see also John Coates, et al., Shadow SEC: The PCAOB Should Be Carefully Reviewed, Not Hastily Abolished, CLS Blue Sky Blog at 2 ("Moreover, combining the PCAOB into the SEC would amount to giving the SEC an unfunded mandate to take on substantial and difficult tasks."); Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services ("the bill specifies that further fee collections would be discontinued, raising serious questions regarding how the SEC would fund its significantly expanded auditor oversight responsibilities and who would bear those costs"); Letter from Margaret E. Franklin, CFA, CEO and President, CFA Institute & Sandra Peters, CPA, CFA, Senior Head, Global Financial Policy, CFA Institute to The Honorable French Hill, Chairman, House Committee on Financial Services, et al. 1 ("The bill also transfers the responsibilities of the PCAOB under the Sarbanes-Oxley Act (SOX Act) to the Securities and Exchange Commission without ensuring any increase in funding or staff at the SEC to fulfill these responsibilities.").

¹⁶ See Amanda Fischer & Ben Schiffrin, The Dangers of Folding the PCAOB Into the SEC, PCAOB Fact Sheet, Better Markets 4 (Apr. 28, 2025), <https://bettermarkets.org/newsroom/fact-sheet-the-dangers-of-folding-the-pcaob-into-the-sec/#:~:text=%E2%80%99CI%20is%20important%20to%20remember,make%20auditing%20oversight%20more%20efficient> ("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.").

headcount across offices and divisions”¹⁷ And on May 8th Bloomberg reported that the administration announced the steepest cuts to the Commission in decades.¹⁸

We share the concerns of a group of leading securities law scholars, known as the Shadow SEC, who recently observed:

With growing concern, we fear that we are watching the SEC face a death by 1,000 cuts. . . . [T]he SEC is on the verge of being shrunk by both budget cuts and mandated staff reductions The end result might be a shell of its former self, as the SEC becomes an agency with little . . . capacity . . . S.” [19]

. . . .

Inadequate funding of the SEC has occurred before with severe impacts on investor protection and the economy.

In particular, the inadequate funding of the SEC program to regulate our largest investment-bank holding companies contributed to the 2007-2009 economic collapse, starting with the March 2008 near bankruptcy of Bear Stearns and subsequent declines of 54-56 percent in stock indices between selected dates in October 2007 and March 2009. This same period saw aggregate job losses of close to 9 million employees by 2011 and household income falling by nearly 39 percent between 2007 and 2010. Further, the federal deficit exploded from \$459 billion in 2008 to \$1.413 trillion in 2009. *To be sure, other factors besides SEC underfunding also played a large role, but we must suggest that those who ignore history have a good chance of repeating it.*²⁰

¹⁷ [Chris Prentice & Douglas Gillison](https://www.reuters.com/business/world-at-work/us-secs-new-chief-says-15-staff-have-left-contract-cuts-come-sources-say-2025-05-06/), US SEC's new chief says 15% of staff have left, contract cuts to come, sources say, Reuters (May 6, 2025), <https://www.reuters.com/business/world-at-work/us-secs-new-chief-says-15-staff-have-left-contract-cuts-come-sources-say-2025-05-06/>; cf. Douglas Gillison & Chris Prentice, US SEC buyouts hit legal, investment divisions hardest, data shows, Reuters (May 16, 2025), <https://www.reuters.com/business/world-at-work/secs-legal-investment-markets-divisions-cut-up-19-staff-after-buyout-program-2025-05-15/> (“The data, obtained by Reuters through a public records request, show those divisions at the U.S. Securities and Exchange Commission lost 15% to 19% of their full-time headcount over the course of several weeks, representing a [significant workforce drawdown](#).”).

¹⁸ See Katanga Johnson & Weihua Li, Trump Cuts Wall Street Cops as Markets Swing: Finance Brief, Bloomberg Gov't (May 7, 2025), <https://finance.yahoo.com/news/trump-cut-thousands-wall-street-160847100.html> (“**The cuts are the steepest in decades** for . . . the Securities and Exchange Commission”) (emphasis added).

¹⁹ See Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services (“By expanding the SEC’s responsibilities without expanding its funding the bill would make this problem much worse.”).

²⁰ Professor John Coates, et al., Shadow SEC Statement No. 2 (Mar. 13, 2025): THE CRISIS DEEPENS AS SEC STAFF AND BUDGET CUTS ARE DIRECTED, CLS Blue Sky Blog (Mar. 13, 2025),

Perhaps Chair Atkins can find a way for an underfunded and understaffed SEC to re-create inspections and standard-setting functions comparable to the PCAOB's current programs.²¹ However, we believe that even with sufficient funding and staff it would take several years to recreate current PCAOB programs at the Commission and there would be considerable disruption and lack of continuity along the way.²² Just building an SEC staff to replace the 480 PCAOB staff that conduct audit firm inspections would be a challenge;²³ even if the SEC received sufficient funding appropriations to hire them.²⁴ PCAOB inspectors are themselves experienced auditors and, given the talent shortage, there is significant demand for their skills.²⁵

<https://clsbluesky.law.columbia.edu/2025/03/13/shadow-sec-statement-no-2-march-13-2025-the-crisis-deepens-as-sec-staff-and-budget-cuts-are-directed/>; *see generally*, The Shadow SEC with James Cox, Voice Corp. Governance (Apr. 27, 2025), <https://podcasts.apple.com/us/podcast/the-shadow-sec-with-james-cox/id1433954314?i=1000703882532> (includes discussion of Shadow SEC concerns about budget cuts and mandated staff reductions at the SEC).

²¹ See Amanda Iacone, SEC Chair Confident He'll Have Staff, Funds to Oversee Auditors, Bloomberg Gov't. (May 19, 2025) (on file with IAG) ("It sounds like we would have the funding and we could get people who are at PCAOB and be able to consolidate," Atkins said in remarks to reporters . . .").

²² See Dan Goelzer, Save the PCAOB!, Audit Blog ("Even if the SEC could eventually re-create inspections and standard-setting functions comparable to the PCAOB's current programs, it would take several years and there would be considerable disruption and lack of continuity along the way."); News Release, PCAOB, PCAOB Chair Williams Delivers Remarks at the Investor Advisory Group Meeting (Apr. 29, 2025), <https://pcaobus.org/news-events/speeches/speech-detail/pcaob-chair-williams-delivers-remarks-at-the-investor-advisory-group-meeting> ("The disruption to inspections alone while a new program gets up and running could last years.").

²³ See Dan Goelzer, Save the PCAOB!, Audit Blog ("Just building a staff with the necessary expertise could be a challenge."); News Release, PCAOB, PCAOB Chair Williams Delivers Remarks at the Investor Advisory Group Meeting ("It takes a minimum of 480 experienced staff to conduct the inspections required by the Sarbanes-Oxley Act in addition to many others who are essential to supporting their work and hiring them would come at considerable cost to the SEC – that is assuming it is possible to hire them at all.").

²⁴ See Dan Goelzer, Save the PCAOB!, Audit Blog ("It's doubtful that most PCAOB personnel would transfer to the Commission and keep doing their jobs at lower government pay rates — even if the SEC had the budget to hire them."); Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services ("If PCAOB staffers decide not to apply to work at the SEC at a reduced salary, how would the SEC address the lack of staff expertise to maintain these functions."); *see also* § 50002(c) ("Any employee of the Board as of the date of enactment of this Act may—(1) be offered equivalent positions on the Commission staff, as determined by the Commission, and submit to the Commission's standard employment policies; and (2) receive pay that is not higher than the highest paid employee of similarly situated employees of the Commission.").

²⁵ See An Original PCAOB Board Member Makes the Case for the Endangered Audit Overseer, Cap. Acct. ("PCAOB inspection staff members wouldn't have any trouble finding other jobs if they felt like the SEC wasn't the place they wanted to work."); Dan Goelzer, Save the PCAOB!, Audit Blog ("PCAOB inspectors are themselves experienced auditors and, given the talent shortage plaguing the profession, there is considerable demand for their skills."); News Release, PCAOB, PCAOB Chair Williams Delivers Remarks at the Investor Advisory Group Meeting ("As we will hear more about later today, there is currently an industry-wide shortage of accounting and audit talent, and our team members are some of the most respected and employable members of the profession."); *cf.* Michelle Hanlon & Nemit Shroff, Insights into Auditor public oversight boards: Whether, how, and why they "work," 74 J. Acct. & Econ. 24 (2022), *available at* <https://www.sciencedirect.com/science/article/abs/pii/S0165410122000209> (discusses survey responses of Public

2. Ending Inspections of Auditing Firms in China

The MIAG and many experts believe the PCAOB inspections of auditing firms in China would “all but certain be lost” if Section 50002 is enacted as part of the Reconciliation Bill.²⁶ As background, The Holding Foreign Companies Accountable Act (HFCAA) was passed on a bipartisan basis in 2020 during the first Trump Administration.²⁷ The HFCAA requires the PCAOB to inspect and investigate audit firms in foreign jurisdictions that perform audits of companies that trade on U.S. stock exchanges.²⁸ That requirement was supported by many investors²⁹ and motivated by concerns that China-based audit firms for which the PCAOB was prohibited from inspecting by the Chinese authorities were conducting poor quality audits of companies that nonetheless had access to the U.S. capital markets.³⁰

Company Accounting Oversight Board (PCAOB) inspectors suggesting that they perceive their PCAOB “experience as valuable to audit firms.”).

²⁶ Letter from Margaret E. Franklin, CFA, CEO and President, CFA Institute & Sandra Peters, CPA, CFA, Senior Head, Global Financial Policy, CFA Institute to The Honorable French Hill, Chairman, House Committee on Financial Services, et al. at 4.

²⁷ See, John Coates, et al., Shadow SEC: The PCAOB Should Be Carefully Reviewed, Not Hastily Abolished, CLS Blue Sky Blog (“Congress unanimously approved the Holding Foreign Companies Accountable Act (HFCAA) in 2020, a bipartisan law to improve foreign accounting and auditing, through the mechanism of PCAOB oversight of foreign auditors, backed by the threat of delisting.”); Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services (“Passed in 2020 with bipartisan support, the HFCAA resulted in a historic Memorandum of Understanding between the U.S. and China allowing PCAOB for the first time to inspect the audits of Chinese companies listed in the United States.”); see generally Holding Foreign Companies Accountable Act, Pub. L. No. 116–222, 134 Stat. 1063 (2020), <https://www.congress.gov/116/plaws/publ222/PLAW-116publ222.pdf>.

²⁸ See Holding Foreign Companies Accountable Act, Pub. L. No. 116–222, § 2(i)(2)(A) (“(2) DISCLOSURE TO COMMISSION.—The Commission shall— ‘(A) identify each covered issuer that, with respect to the preparation of the audit report on the financial statement of the covered issuer that is included in a report described in paragraph (1)(A) filed by the covered issuer, retains a registered public accounting firm that has a branch or office that— ‘(i) is located in a foreign jurisdiction; and ‘(ii) the Board is unable to inspect or investigate completely because of a position taken by an authority in the foreign jurisdiction described in clause (i), as determined by the Board;’”); see also Amanda Fischer & Ben Schiffrin, The Dangers of Folding the PCAOB Into the SEC, PCAOB Fact Sheet, Better Markets (“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”).

²⁹ See, e.g., Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors, to Vanessa A. Countryman, Secretary, Securities and Exchange Commission 4-5 (May 5, 2021), https://www.cii.org/files/issues_and_advocacy/correspondence/2021/May%202021%20S7-03-21.pdf (discussing the Council of Institutional Investors history of support for the provisions of the Holding Foreign Companies Accountable Act); cf. ASA Urges House to Pass Accelerating Holding Foreign Companies Accountable Act, ASA Newsroom (Oct. 26, 2021), https://www.americansecurities.org/post/asa-urges-house-to-pass-accelerating-holding-foreign-companies-accountable-act?utm_source=chatgpt.com (“American Securities Association (ASA) today [sent a letter](#) . . . call[ing] on the House to quickly pass . . . [the] . . . *Holding Foreign Companies Accountable Act* to further strengthen investor protections”).

³⁰ See, John Coates, et al., Shadow SEC: The PCAOB Should Be Carefully Reviewed, Not Hastily Abolished, CLS Blue Sky Blog (“The PCAOB also plays a vital role in protecting investors in companies cross-listed into the U.S. from countries – such as the People’s Republic of China (PRC) – that historically had weak auditors and posed acute

The HFCAA resulted in a 2022 signed Statement of Protocol Agreement between the PCAOB and the Chinese Securities Regulatory Commission and the Ministry of Finance (PRC Agreement).³¹ The PRC Agreement permitted the PCAOB beginning in 2023 to inspect auditing firms in China and Hong Kong.³² And “[a]s long suspected, those early inspections uncovered myriad issues with the audits performed by Chinese auditors.”³³

It is well-known that that the Chinese authorities are sensitive to the idea of representatives of the U.S. government, including the SEC, acting within its territory, and one key to consummation of the PRC Agreement was that the inspectors sent to China would be PCAOB employees, not employees of the Commission.³⁴ And the PRC Agreement does not “contain provisions that

investment risks.”); Amanda Fischer & Ben Schiffrin, The Dangers of Folding the PCAOB Into the SEC, PCAOB Fact Sheet, Better Markets (“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”).

³¹ See PCAOB News Release, PCAOB Secures Complete Access to Inspect, Investigate Chinese Firms for First Time in History (Dec. 15, 2022), <https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-secures-complete-access-to-inspect-investigate-chinese-firms-for-first-time-in-history> (“for the first time in history, the PCAOB has secured complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong [and] [a]nd this morning the Board voted to vacate the previous determinations to the contrary [and] [t]his historic and unprecedented access was only possible because of the leverage Congress created by passing the Holding Foreign Companies Accountable Act [and] Congress sent a clear message with that legislation that access to U.S. capital markets is a privilege and not a right, and China received that message loud and clear.”); see also Dan Goelzer, Save the PCAOB!, Audit Blog (“After years of effort and frustration, the PCAOB, in 2022, signed a Statement of Protocol Agreement with the Chinese Securities Regulatory Commission and the Ministry of Finance permitting the Board to inspect auditing firms in China and Hong Kong.”); Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services (“Passed in 2020 with bipartisan support, the HFCAA resulted in a historic Memorandum of Understanding between the U.S. and China allowing PCAOB for the first time to inspect the audits of Chinese companies listed in the United States.”); Amanda Fischer & Ben Schiffrin, The Dangers of Folding the PCAOB Into the SEC, PCAOB Fact Sheet, Better Markets at 3 (“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.”).

³² See, John Coates, et al., Shadow SEC: The PCAOB Should Be Carefully Reviewed, Not Hastily Abolished, CLS Blue Sky Blog at 1 (“In 2022, the PRC accepted PCAOB inspections of PRC auditors as the first and only regulatory body with such access.”); Amanda Fischer & Ben Schiffrin, The Dangers of Folding the PCAOB Into the SEC, PCAOB Fact Sheet, Better Markets at 3 (“Those inspections have been proceeding since 2023 [and] [s]hould 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.”).

³³ Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services; see PCAOB News Release, Imposing \$7.9 Million in Total Fines, PCAOB Sanctions Three China-Based Firms and Four Individuals in Historic Settlements (Nov. 30, 2023), <https://pcaobus.org/news-events/news-releases/news-release-detail/imposing-7-9-million-in-total-fines-pcaob-sanctions-three-china-based-firms-and-four-individuals-in-historic-settlements>.

³⁴ See, e.g., Dan Goelzer, Save the PCAOB!, Audit Blog (“The PRC is sensitive to the idea of another government acting within its territory, and one key to the SOP Agreement was that the inspectors sent to China would be PCAOB employees, not employees of the U.S. government.”).

would allow the PCAOB's privileges and responsibilities under the agreements to be transferred to the SEC."³⁵ As a result, many experts agree that the Chinese authorities are not likely to permit the SEC to simply step into the PCAOB's shoes and continue performing inspections in China.³⁶ In addition, we agree with PCAOB Chair Williams that "[s]crapping that agreement and starting over gives China the opportunity to exploit the uncertainty in order to avoid scrutiny of its audit work once again, to the detriment of investors."³⁷

3. Reducing Government Spending

Section 50002 is apparently being proposed as a provision that reduces government spending.³⁸ The reality is that the PCAOB is funded through assessments paid by the largest public

³⁵ News Release, PCAOB, PCAOB Chair Williams Delivers Remarks at the Investor Advisory Group Meeting.

³⁶ See, John Coates et al., Shadow SEC: The PCAOB Should Be Carefully Reviewed, Not Hastily Abolished, CLS Blue Sky Blog ("To abandon the PCAOB now would release the PRC from its treaty commitments."); Dan Goelzer, Save the PCAOB!, Audit Blog ("The Chinese are not likely to permit the SEC to simply step into the PCAOB's shoes and continue performing inspections in China."); Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services ("Given heightened tensions between the two nations at this time, they are unlikely to reverse that position now."); Letter from Margaret E. Franklin, CFA, CEO and President, CFA Institute, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services, et al. at 4. ("It seems highly unlikely that China would permit U.S. Government employees the access needed to conduct audit inspections."); Amanda Fischer & Ben Schiffrin, The Dangers of Folding the PCAOB Into the SEC, PCAOB Fact Sheet, Better Markets ("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.").

³⁷ News Release, PCAOB, PCAOB Chair Williams Delivers Remarks at the Investor Advisory Group Meeting; see, e.g., John Coates, et al., Shadow SEC: The PCAOB Should Be Carefully Reviewed, Not Hastily Abolished, CLS Blue Sky Blog ("In a moment of increased tension between the PRC and the U.S., such a step would likely unwind the HFCAA's accomplishments and expose U.S. investors to heightened risks of fraud and abuse.").

³⁸ See, John Coates, et al., Shadow SEC: The PCAOB Should Be Carefully Reviewed, Not Hastily Abolished, CLS Blue Sky Blog ("We are confident that no net budget benefit can be confidently predicted from the abolishment of the PCAOB."); Dan Goelzer, Save the PCAOB!, The Audit Blog ("There seems to be a notion that the transfer would save money and reduce the deficit, but the opposite is the case."); Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services ("it is a cynical ploy of bill sponsors to present this as a deficit-reduction measure"); Letter from Margaret E. Franklin, CFA, CEO and President, CFA Institute & Sandra Peters, CPA, CFA, Senior Head, Global Financial Policy, CFA Institute to The Honorable French Hill, Chairman, House Committee on Financial Services, et al. at 2 ("The stated policy objective of the Reconciliation Bill, and this provision specifically, is to reduce the budget deficit [and] [t]his is a contrivance of the bill sponsors and a false narrative as both the PCAOB and SEC are deficit neutral"); Amanda Fischer & Ben Schiffrin, The Dangers of Folding the PCAOB Into the SEC, PCAOB Fact Sheet, Better Markets ("The budget gimmick in this reconciliation won't even accrue real savings.").

companies and by fees paid by accounting firms.³⁹ It does not receive any taxpayer funding or Congressional appropriations.⁴⁰

The SEC, on the other hand, like other government agencies, receives an annual appropriation from Congress.⁴¹ However, unlike most federal agencies, the SEC's budget is deficit neutral because its operations are paid for by fees on broker dealers that transact in the securities markets.⁴² Therefore, the effect of merging the PCAOB into the SEC would likely be to increase Congressional appropriations to the SEC to start paying the costs of audit oversight.⁴³ And those costs would then be borne by broker-dealers rather than by large companies and accounting firms.⁴⁴ In any event, Section 50002 would not reduce the federal deficit.⁴⁵

³⁹ See Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, tit. I, § 109(c)(1), 116 Stat. 745, 7219 (2002), <https://www.congress.gov/107/statute/STATUTE-116/STATUTE-116-Pg745.pdf> (“(1) RECOVERABLE BUDGET EXPENSES.—The budget of the Board (reduced by any registration or annual fees received under section 102(e) for the year preceding the year for which the budget is being computed), and all of the budget of the standard setting body referred to in subsection (a), for each fiscal year of each of those 2 entities, shall be payable from annual accounting support fees, in accordance with subsections (d) and (e) [and] [a]ccounting support fees and other receipts of the Board and of such standard-setting body shall not be considered public monies of the United States.”); see also John Coates, et al., Shadow SEC: The PCAOB Should Be Carefully Reviewed, Not Hastily Abolished, CLS Blue Sky Blog (“Contrary to apparent misunderstandings, the PCAOB’s resources are not derived from the U.S. Treasury or taxpayers, but from a separate fee stream, the accounting support fees paid by audited companies.”); Dan Goelzer, Save the PCAOB!, Audit Blog (“The PCAOB is funded through assessments paid by the largest public companies and by fees paid by accounting firms.”); Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services (“The PCAOB is funded without any contribution from taxpayers and without any impact on the federal budget deficit.”); Amanda Fischer & Ben Schiffrin, The Dangers of Folding the PCAOB Into the SEC, PCAOB Fact Sheet, Better Markets (“the PCAOB is paid for by fees on the audit industry and firms that receive audits – not taxpayers”).

⁴⁰ See, e.g., Letter from Jane Adams CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC, et al. to The Honorable French Hill, Chairman, House Committee on Financial Services & The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services (“The PCAOB is funded without any contribution from taxpayers and without any impact on the federal budget deficit.”).

⁴¹ See, e.g., Introduction to Financial Services: The Securities and Exchange Commission (SEC), Congress.Gov (last visited on May 13, 2025), <https://www.congress.gov/crs-product/IF11714> (“The SEC’s budget is set though the congressional appropriations process.”).

⁴² See *id.* (“Sales fees on stock and other securities transactions that the SEC collects from securities exchanges offset the appropriations.”).

⁴³ See, e.g., An Original PCAOB Board Member Makes the Case for the Endangered Audit Overseer, Cap. Acct. (“This work would come on budget.”).

⁴⁴ See Dan Goelzer, Save the PCAOB!, The Audit Blog (“the effect of merging the PCAOB into the SEC is to require taxpayers to start paying the costs of audit oversight, which are now borne by large companies and accounting firms”); Letter from Margaret E. Franklin, CFA, CEO and President, CFA Institute & Sandra Peters, CPA, CFA, Senior Head, Global Financial Policy, CFA Institute to The Honorable French Hill, Chairman, House Committee on Financial Services, et al. at 2 (“This would, in fact, increase the deficit or require the SEC to increase transaction fees to fund the PCAOB’s responsibilities because the SEC, like the PCAOB, is deficit neutral.”).

⁴⁵ See, e.g., Letter from Margaret E. Franklin, CFA, CEO and President, CFA Institute & Sandra Peters, CPA, CFA, Senior Head, Global Financial Policy, CFA Institute to The Honorable French Hill, Chairman, House Committee on Financial Services, et al. at 2 (“this provision of the Reconciliation Bill does not reduce the deficit”).

Perhaps the theory of including Section 50002 in the Reconciliation Bill is that it could potentially reduce the federal deficit because Section 50002(b)(1) requires the PCAOB to turn over to Treasury its unused funds when it goes out of business.⁴⁶ A flaw in that theory is that the required transfer to Treasury of any unused PCAOB funds would be a onetime windfall.⁴⁷ It would not reduce the federal deficit, if at all, beyond the initial year when PCAOB responsibilities were transferred to the SEC.

Thank you for considering the comments of the MIAG, who represent the primary customers of audited financial reports. If you or your staff have questions or seek further elaboration of our views, please contact Amy McGarrity at amcgarrity@copera.org.

Sincerely,

Members of the Investor Advisory Group

Members of the Investor Advisory Group

CC: The Honorable Tim Scott, Chairman, Committee on Banking, Housing, and Urban Affairs, United States Senate

The Honorable Elizabeth Warren, Ranking Member, Committee on Banking, Housing, and Urban Affairs, United States Senate

⁴⁶ See § 50002(b)(1) (“(b) Effective on the transfer date— (1) all unobligated fees collected under section 109(d) of the Sarbanes-Oxley Act of 2002 shall be transferred to the general fund of the Treasury, and the Commission may not collect fees under such section 109(d)”); see also Dan Goelzer, Save the PCAOB!, Audit Blog (“The idea behind including the merger in the 2025 budget reconciliation bill apparently is that the PCAOB will turn over to the Treasury its unused funds when it goes out of business.”).

⁴⁷ See, e.g., Dan Goelzer, Save the PCAOB!, Audit Blog (“But it would be a one-time payment, at the expense of the need for future appropriations in perpetuity to support the SEC’s ability to do the work that the PCAOB now does.”).