April 30, 2025

The Honorable French Hill
Chairman
House Committee on Financial Services
1533 Longworth House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
House Committee on Financial Services
2221 Rayburn House Office Building
Washington, DC 20515

Oppose Section 50002 of the HFSC Committee Print to Eliminate the PCAOB

Dear Chairman Hill, Ranking Member Waters, and Members of the Committee:

The undersigned individuals – including former SEC officials, PCAOB advisory committee members, and former auditors – are writing to urge you to oppose Section 50002 of the House Committee on Financial Services Committee Print, which is scheduled for mark-up later today.[1] This provision would eliminate the Public Company Accounting Oversight Board (PCAOB), purportedly by folding its functions into the Securities and Exchange Commission (SEC), but without ensuring any increase in funding or staffing at the SEC to fulfill those vital functions. 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.

This is not a theoretical concern. Twenty-five years ago, a wave of accounting scandals at companies large and small culminated in the bankruptcies of Enron and WorldCom, rocking the financial markets, destroying tens of thousands of jobs, and decimating the retirement savings of millions of Americans.[2] Recognizing that weak auditing standards, a lack of auditor independence, and lax, underfunded oversight of audit firms were key root causes of the crisis, Congress acted on an overwhelmingly bipartisan basis to enact the Sarbanes-Oxley Act. The bill included as its centerpiece the establishment of the PCAOB, an independent board, staffed by subject matter experts, to set audit, independence, and quality control standards, register audit firms, inspect audits of public companies, and bring enforcement actions for violations.

While many of us would agree there is room for improvement in the operations of the PCAOB, it will not be achieved through this means. On the contrary, this bill would move in the other direction, weakening auditor oversight and undermining investor protection. This attack on audit quality would occur at a time when investor-owned public companies are paying in excess of $17 billion each year for audits of their financial statements.

Bill sponsors are proposing this radical step without any apparent consideration of the potential impact on auditor oversight, market integrity, investor protection, or capital formation. First and foremost, the bill would saddle the SEC with expansive new responsibilities without providing a

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[1] House Committee on Financial Services Committee Print – Providing for Reconciliation Pursuant to H.Con.Res. 14, Establishing the Congressional Budget for the United States Government for Fiscal Year 2025 and Setting Forth The Appropriate Budgetary Levels for Fiscal Years 2026 Through 2034. (Hill)

[2] Carol Graham, Robert E. Litan, and Sandip Sukhtankar, "Cooking the Books: The Cost to the Economy," August 1, 2002 (providing a "ballpark estimate of the costs to the economy" of the Enron and WorldCom bankruptcies of $35 billion in the first year.) See also, BBC News, "The banks that robbed to world," June 9, 2004.

dime of additional funding, and this at a time when the SEC is suffering severe staffing shortages and a loss, in particular, of senior staff. As a group of leading securities law scholars, known collectively as the SEC Shadow Committee, has stated, "there is a growing disparity between the SEC's size and the growing markets it is expected to monitor."[3] By expanding the SEC's responsibilities without expanding its funding, the bill would make this problem much worse.

Moreover, the bill is entirely devoid of details on how the SEC would be expected to perform its new functions, how it would be staffed (except to say current PCAOB staffers could apply to work at the SEC), and what would happen to those functions that the SEC will not be able to perform (such as inspections of foreign audit firms that audit U.S. listed companies). The following are a few of the key, critically important questions the legislation fails to address:

- **Impact on the Holding Foreign Companies Accountable Act.** Passed in 2020 with bipartisan support, the HFCAA resulted in a historic Memorandum of Understanding (MOU) between the U.S. and China allowing PCAOB for the first time to inspect the audits of Chinese companies listed in the United States.[4] As long suspected, those early inspections uncovered myriad issues with the audits being performed by Chinese auditors.[5] This legislation would have the effect of tearing up the existing MOU, with no clear path to a positive resolution on an issue of critical importance to U.S. and international investors. In negotiating that MOU, Chinese officials made clear that inspections could not be performed by a government official, such as SEC staff. Given heightened tensions between the two nations at this time, they are unlikely to reverse that position now.

- **Impact on key Board Functions, including Inspections and Standard-Setting.** The legislation includes a broad statement that the duties and powers of the Board would "be transferred" to the SEC, but it provides no details on how the Commission would be

[3] Professor John Coates, Professor John C. Coffee Jr., Professor James D. Cox, Professor Merritt B. Fox and Professor Joel Seligman, Shadow SEC Statement No. 2 (March 13, 2025): The Crisis Deepens as SEC Staff and Budget Cuts are Directed, 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/ . ("Among financial regulators, the SEC is relatively small. But the fields it is expected to watch over can grow by leaps and bounds, as new markets and new types of securities suddenly appear (witness the astronomic growth of cryptos over recent years). As of 2024, the SEC was expected to oversee the disclosures and aspects of the behavior of 30,000 registered entities, 16,000 registered funds, 15,300 investment advisers, more than 35,000 trading centers, 10 credit agencies and 7 registered clearing agencies.[9] This works out to something like 11.8 registered/reporting entities per SEC employee, and all the foregoing numbers could increase significantly, while the SEC is required to reduce its own staff. As we noted in our Statement No. 1, empirical research has established a relationship across the world's financial markets between the independence and funding of securities regulators and the cost of equity capital. This data supports our belief that reducing the size and independence of the SEC may well have a hidden cost: a higher cost of capital for U.S. issuers. Of course, this will have an adverse impact on the ability of U.S. issuers (which today have a uniquely low cost of equity capital) to compete with foreign rivals."

[4] PCAOB News Release, Dec. 15, 2022, PCAOB Secures Complete Access to Inspect, Investigate Chinese Firms for First Time in History, https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-secures-complete-access-to-inspect-investigate-chinese-firms-for-first-time-in-history.

[5] See, e.g., 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.

expected to carry out those functions. The legislation states, for example, the Commission would have the authority to revise existing auditing standards through rule-making. However, it does not make clear whether the Commission would be the default auditing standard setter going forward, or whether that role would devolve to the AICPA, which bore that responsibility and produced weak, industry-friendly standards in the years before the establishment of the PCAOB. Similarly, the bill provides no details on whether or how the SEC would be expected to carry out inspections of audit firms. 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?

- **Impact on Enforcement Action Confidentiality.** SEC enforcement actions and investigations of auditors by the SEC have long been public proceedings. In contrast, SOX required PCAOB enforcement actions to be kept confidential until completed, which can take years. Similarly, the SEC is subject to FOIA, while the PCAOB is not. Would information and documents arising from investigations and inspections become public, and/or subject to FOIA, once transferred to the SEC?

In short, bill sponsors do not appear to have given any consideration to how their proposed transfer would be accomplished, what the cost of the transition would be, or what additional funding and staffing the SEC would need going forward to carry out these functions. Moreover, 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.

Finally, it is a cynical ploy of bill sponsors to present this as a deficit-reduction measure. The PCAOB is funded without any contribution from taxpayers and without any impact on the federal budget deficit. The bill achieves this deficit-reduction fiction through the inclusion of a one-time transfer of unspent accounting support fees to the Treasury.[6] But these fees were raised from public companies and their investors specifically for the purpose of funding the operations of the Board. If the fees are not to be used for that purpose, they should be refunded to the companies that paid them.

We have witnessed too often the heavy price, measured in trillions of dollars, that investors and public companies pay when Congress looks to cut costs for vitally important market regulation. This legislation, if adopted, risks repeating those painful lessons.

For all these reasons, we urge you to oppose the elimination of the PCAOB.

Respectfully submitted,

Jane B. Adams, CPA (retired), former Acting Chief Accountant and Deputy Chief Accountant of the SEC

[6] Majority Committee Staff, Memorandum to Members of the Financial Services Committee, April 25, 2025.

Jack Ciesielski, CPA, CFA, R.G. Associates, Inc. and former PCAOB advisory committee member

Parveen P. Gupta, William L. Clayton Distinguished Full Professor and former Lehigh University Accounting Department Chair, former SEC Academic Fellow, and former PCAOB advisory committee member

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