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31 December 2024

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F. Street NE
Washington, D.C. 20549-1090

Dear Secretary Countryman:

CFA Institute[1] appreciates the opportunity to comment and provide our perspectives to the U.S. Securities and Exchange Commission's on the Public Company Accounting Oversight Board's ("PCAOB's" or "Board's") Release No. 2024-013, PCAOB Rulemaking Docket Matter No. 055[2], *Firm Reporting*, (the "Final Rule" or "Firm Reporting Final Rule ") as requested in the Notice of Filing of the Public Company Accounting Oversight Board's Proposed Rules on Firm Reporting (the "SEC Notice on Proposed Final Rule on Firm Reporting" or the "SEC Notice on Firm Reporting").

We laud the PCAOB for undertaking an update of firm reporting requirements in conjunction with the Board's work related to firm and engagement metrics under PCAOB's Release No. 2024-012, PCAOB Rulemaking Docket Matter No. 041[3], *Firm and Engagement Metrics,* (the "Firm and Engagement Metrics Final Rule ").

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[1] 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.

[2] See the PCAOB (proposed rule, final rule, and SEC submission), SEC notice and Federal Register publication of documents as follows:
- PCAOB Website: https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-055
- SEC Website: SEC.gov | Public Company Accounting Oversight Board Rulemaking
- Federal Register: Federal Register: Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Firm Reporting

[3] See the PCAOB (proposed rule, final rule, and SEC submission), SEC notice and Federal Register publication of documents as follows:
- PCAOB Website: Docket 041 | PCAOB (https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-041)
- SEC Website: SEC.gov | Public Company Accounting Oversight Board Rulemaking
- Federal Register: Federal Register: Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Firm and Engagement Metrics and Related Amendments to PCAOB Standards

This response should be read in conjunction with:

- Our response[4] to the U.S. Securities and Exchange Commission's Notice of Filing of the Public Company Accounting Oversight Board's Proposed Rules on Firm and Engagement Metrics (the "SEC Notice on Proposed Final Rule on Firm and Engagement Metrics" or the "SEC Notice on Firm and Engagement Metrics"), and
- Our earlier response to the PCAOB's proposed rule in Release No. 2024-002, PCAOB Rulemaking Docket Matter No. 041, *Firm and Engagement Metrics,* (the "Firm and Engagement Metrics Proposed Rule ").

  When reading this earlier comment letter, particular attention should be paid to the overarching considerations section of that letter where we provide background regarding investor pursuit of greater transparency at both the firm and engagement level.

AUDIT IS A CREDENCE GOOD: GREATER TRANSPARENCY IS ESSENTIAL FOR, AND USEFUL TO, INVESTORS AND CAPITAL FORMATION

Our Historical Support for, and Demonstration of the Need for, Greater Transparency

We have supported both the Firm and Engagement Metrics Proposed Rule and the Firm Reporting Proposed Rule because audit is a credence good where the auditor's actual client – the investor – has limited information to evaluate the quality of the auditors work or the financial wherewithal or governance of the audit firm providing audit services.

As we note – through illustrative examples from some of America's largest corporations – in our comment letter on the Firm and Engagement Metrics Proposed Rule, investors are asked to cast votes to appoint audit committee members – who are charged with protecting their interests – and to ratify the audit committee's choice of auditor. Despite those responsibilities they are provided limited information to cast such votes.

There needs to be transparency throughout the process that results in the appointment and oversight of the audit firms and the audit process to ensure there is accountability to investors by the PCAOB (the regulator) and the audit committee which is charged with protecting investors interests. Investors themselves need this transparency to accomplish their stewardship responsibilities and to hold their agents (i.e., audit committees, management and regulators) accountable.

The Final Report of the 2008 U.S. Treasury's Advisory Committee on the Auditing Profession ("ACAP", "ACAP Report" or "ACAP Final Report") – undertaken and completed during the Republican Bush Administration – highlights in many different locations throughout the document the importance of transparency and makes recommendations in this regard.

These Firm Reporting Final Rule and Firm and Engagement Metrics Proposed Rules, were issued in response to investor requests that recommendations – including before the PCAOB's own Investor Advisory Group – in the ACAP Final Report be adopted by the

[4] When filed, the comment letter will be available at: Comment Letters and Consultation Responses | CFA Institute Research and Policy Center.

PCAOB. The proposals included many recommendations related to transparency, including transparency by audit firms, that were included within the 2008 ACAP Final Report[5].

In a 2007 speech[6] then Treasury Secretary Paulson, during the Bush Administration, made the following remarks which highlight the link of transparent financial reporting and a vibrant audit profession to capital formation – a stated objective of the incoming Trump Administration.

> *Strengthening the competitiveness of America's capital markets has been a priority issue for me since taking office. I have listened carefully to many diverging views on this issue, and I heard a common theme throughout:* ***A transparent financial reporting system and vibrant auditing profession form the backbone of a marketplace investors can trust. Any plan to strengthen our capital markets must be based upon this principle****.*

Capital markets and capital formation are dependent on trust in financial reporting and the auditing profession. Investors need transparency from audit firms to enhance their trust in the audit profession.

Audit Committees Exhibit Herding Behavior When Selecting Auditors Because of a Lack of Transparency & Information for Decision-making

Audit committees select the largest (Big 4) audit firms because they, like investors, have limited information upon which to make auditor selection decisions. Audit committee members exhibit herding behavior selecting one of the largest (Big 4) audit firms because this is a safe choice for them. As we note in our previous comment letter on the Firm and Engagement Metrics Proposed Rule, audit committee members have limited information on the audit process, audit quality and the audit firm:

- ***Audit committees, like investors, have no access to audit workpapers nor an ability to observe the auditing work performed****. While the audit committees may have the opportunity to question auditors – unlike investors – on their procedures and findings, they are reliant on communications from the auditor regarding the company's audit issues and the quality of the audit being performed.* ***The audit committee's principal tool is that of inquiry – not observation – and inquiry, in audit parlance, is the weakest form of audit evidence****.*

  Because the audit committee is constrained in its ability to obtain information, they – like investors – could benefit from having additional context when making important decisions *regarding hiring, compensating, overseeing and, if necessary, terminating the company's independent auditor.*

- *As the last several pages highlight,* ***there is a great deal of reliance on inquiry and conversation – by investors and audit committees – but little disclosure of information which enables informed decision-making by them or regulators****.* ***Transparency around such metrics creates behavioral***

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[5] Examples of relevant recommendations from the Advisory Committee on the Auditing Profession Final Report, include the following:

- ***Recommendation 3 (Quality and Performance Reporting):*** Recommend the PCAOB, in consultation with auditors, investors, public companies, audit committees, boards of directors, academics, and others, determine the feasibility of developing key indicators of audit quality and effectiveness and requiring auditing firms to publicly disclose these indicators. Assuming development and disclosure of indicators of audit quality are feasible, require the PCAOB to monitor these indicators.
- ***Recommendation 7 (Financial Reporting of Audit Firms and Quality and Performance Reporting):*** Urge the PCAOB to require that, beginning in 2010, larger auditing firms produce a public annual report incorporating (a) information required by the EU's Eighth Directive, Article 40 Transparency Report deemed appropriate by the PCAOB, and (b) such key indicators of audit quality and effectiveness as determined by the PCAOB in accordance with Recommendation 3 in Chapter VIII of this Report. Further, urge the PCAOB to require that, beginning in 2011, the larger auditing firms file with the PCAOB on a confidential basis audited financial statements.

[6] See Appendix D of the Advisory Committee on the Auditing Profession Final Report.

change in all participants in the audit process *– the auditor, the audit committee, the regulator, investors and even other audit firms.* ***This enhances trust.***

While the AICPA argues in its response to this SEC Notice on Firm Reporting that this increased transparency will harm small firms and reduce their participation in the public audit market, the opposite is actually true. It is the existing lack of transparency which results in the smaller firm not being selected by audit committee members as they do not want their auditor choice questioned should there be an audit failure.

Ironically, those opposing the Proposed and Final Rules argue that the financial, governance, network and special reporting information should not be disclosed because they do not directly link to audit quality and audit services – an argument we refute below – but at the same time it is the perceived notion of financial strength that creates audit committee herding in selecting the largest (Big 4) audit firms and maintaining this audit market oligopoly. Audit committees do not have audit firm financial statements. In substance those making auditor selections are making them based upon a perception of financial strength, good governance, and effective network firms – without empirical evidence to justify their decision-making. What investors seek is information to ensure that these decisions are evidence, rather than perception, based.

The Firm Reporting Requirements Are Simply Elements of Good Governance Such That Investors, Audit Committees and the PCAOB Can Fulfil Their Responsibilities

As investors we see the firm reporting requirements included in the Proposed Rule as information meant to ensure that audit firms – who are vested with the public interest – have the appropriate governance, risk management, and financial wherewithal to ensure that auditors can exercise professional scepticism, act independently and when audits do fail stand behind their work. Audits and auditors act as insurance providers against corporate financial malfeasance and are hired by investors for that reason.

Just as a purchaser of homeowner insurance should look at the financial wherewithal of their insurance provider, investors need to understand the organization, governance, financial strength and use of subcontractors to evaluate their choice of the supplier of audit services. While state insurance regulators inspect and evaluate the financial wherewithal of insurance companies and require the disclosure of key information in the yellow or blue book filed with the respective state insurance department, the PCAOB needs to facilitate such transparency for investors as it relates to auditors. As the PCAOB is not a prudential regulator – a fact that those commenting in opposition to the Proposed Rule continually point out – and there is no public backstop for this industry, which is entrusted with the public interest, it is even more important in the audit industry for investors to have greater transparency and make their own decisions.

The PCAOB's statutory mission under Title I of the Sarbanes-Oxley Act of 2002 (SOX)[7] is to:

(1) protect the interests of investors; and
(2) further the public interest in the preparation of informative, accurate, and independent audit reports.

Given that auditors are paid by the company under audit and audit committee members are incentivized to engender themselves to management, there is an inherent, structural lack of

[7] 15 U.S.C. 7211(a) (https://www.law.cornell.edu/uscode/text/15/7211)

independence and potential conflicts of interest. This lack of independence, combined with the current lack of transparency in the audit, auditor selection and audit committee process necessitate transparency such that there is better accountability throughout the process. Investors need the information outlined in the Proposed Rule to execute their stewardship responsibilities and ensure there is accountability throughout the audit, auditor selection and audit committee process.

The financial, governance, network, special reporting and cybersecurity information included within the Firm Reporting Proposed Rule are modelled after, but substantially less in scope than, that required by the SEC for the protection of investors in U.S. public companies. These transparency principles and the resulting information are long established, widely accepted elements of good corporate governance. The audit firms, selling public company audit services to investors – and subject to PCAOB oversight and vested with the public interest – should not be held to a lesser disclosure standard if we want confidence and trust in capital markets.

Further, investors core competencies exist in the analysis of such financial, corporate governance and risk management information. These are the activities sophisticated investors undertake every day – and skills we at CFA Institute educate them to undertake.

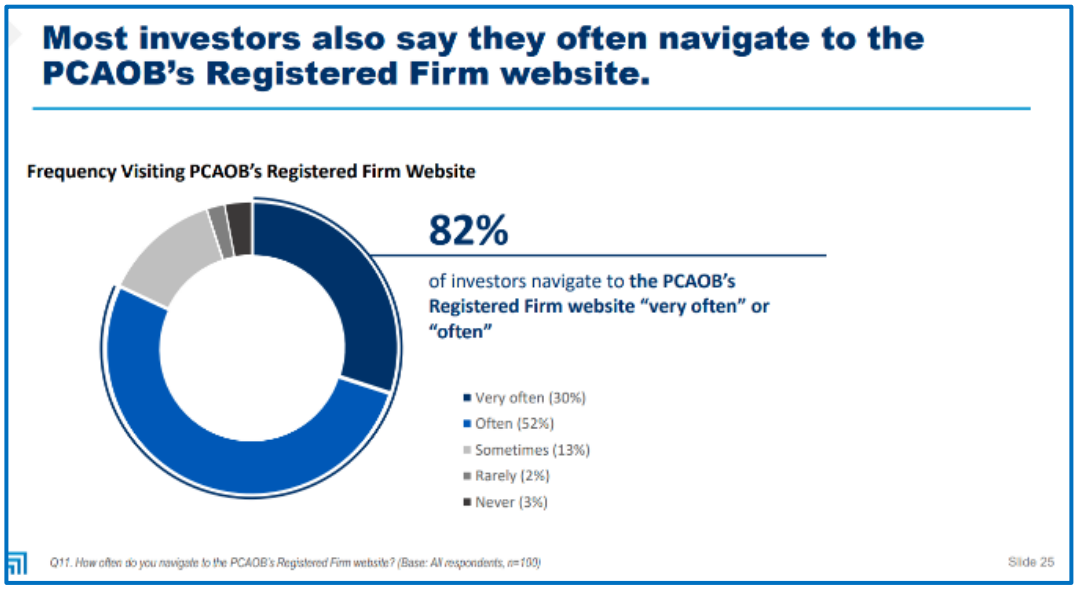
Through Survey of Investors, Audit Profession Advocates Find That:
Investors Often Navigate the PCAOB's Registered Firm Website,
Investors Find Forms 2 and 3 Provide Useful Information, and
Investors Have High Conviction on Disclosure Elements Being Extremely Helpful and Extremely Likely for Them to Seek Out

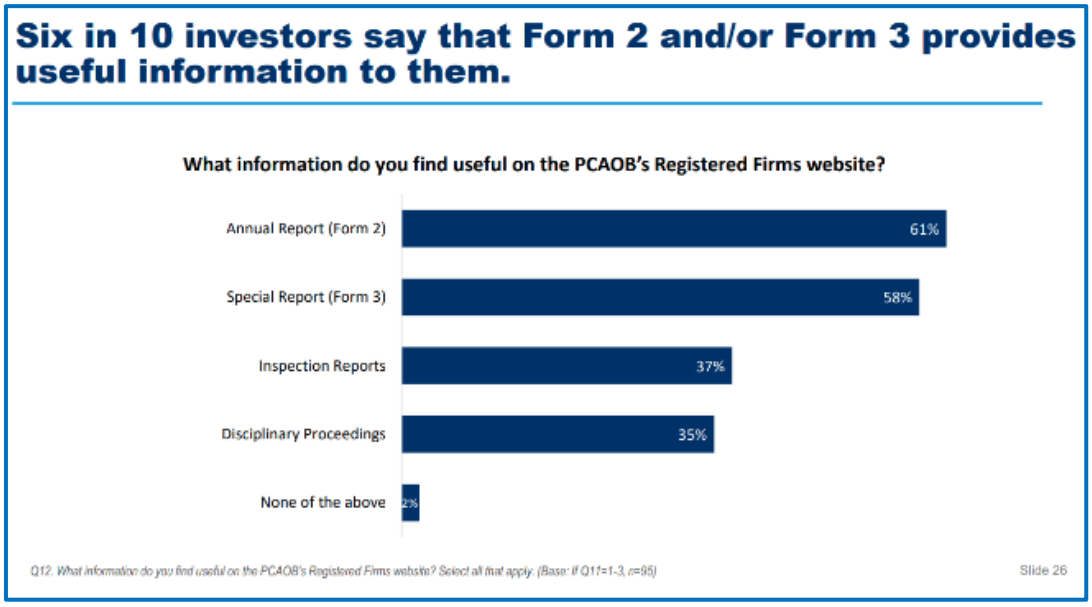
A survey published by the AICPA's Center for Audit Quality (the "CAQ Investor Survey") [8] (i.e., an audit firm lobbying organization) – referred to and relied upon by the only PCAOB Board Member dissenting ("the Dissenting Board Member" or "the PCAOB Dissenting Board Member") to the Firm Reporting Final Rule as we explain below[9] – shows that 82% of investor use the PCAOB's Registered Firm website and that 60% of such investors find the information provided on the existing Form 2 and Form 3 – the subject of the Firm Reporting Final Rule – useful. Investors are accessing and using the information even before the enhancements included in the Proposed or Final Firm Reporting Rules. The PCAOB Dissenting Board Member failed to highlight these findings.

[8] See Pages 20-38 of the Center for Audit Quality Letter at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

[9] See PCAOB Board Member Ho's Statement of Dissent to Firm Reporting Final Rule at: Statement on the Firm Reporting Adopting Release – Extremism in the Name of Investor Protection | PCAOB

The charts[10] which follow illustrate these findings.





The auditing profession in surveying investors found that investors will access, use and find useful the information on Forms 2 and Forms 3, the subject of the Firm Reporting Proposed and Final Rules.

The Dissenting Board Member does not reference the aforementioned charts, but instead references another chart from the CAQ Investor Survey – included below – where the Dissenting Board Member argues that because only 35%, 37% and 50% of investors believe that information on firm networks, fees, and quality control, respectively, would be "extremely helpful/useful" that this indicates little support – and requires additional outreach – for the disclosure of such information as part of the Firm Reporting Final Rule.

[10] See Pages 20-38 of the Center for Audit Quality Letter at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

The Dissenting Board Member fails to highlight the 36% and 41% of investor respondents that said they would find firm governance and cybersecurity policies – both elements of the Firm Reporting Proposal – extremely helpful/useful.

Surprisingly, investors say they are less likely to seek out firm-level metrics they find extremely helpful and more likely to seek out information they find comparatively less helpful.

	Extremely...		
Audit Firm-Level Metrics	**Helpful**	**Likely to Seek Out**	**Δ**
Information about the firm's system of quality control/management	50%	41%	-9
External review findings	49%	35%	-14
Audit firm internal monitoring*	45%	45%	-
Industry experience of audit personnel*	44%	44%	-
Quality performance ratings and compensation*	44%	41%	-3
Experience of audit personnel*	43%	36%	-7
The firm's commitment to DEI initiatives	41%	39%	-2
Cybersecurity policies	41%	46%	+5
The firm's commitment to audit quality and how this commitment is communicated	38%	46%	+8
Fees (e.g. audit, non-audit, public company vs. private)	37%	48%	+11
Partner and manager involvement*	36%	34%	-2
Workload*	36%	41%	+5
Firm governance	36%	38%	+12
Use of auditor's specialists and shared service centers*	35%	48%	+13
Allocation of audit hours (e.g., milestones)*	35%	34%	-1
Network arrangements	35%	36%	+1
Retention and tenure*	33%	43%	+10

Q5. How useful would each of the following firm-level metrics be to you in evaluating the quality of an audit of a company you invest in or follow. / Q6. If this information were made public on the PCAOB's website, how likely would you be to proactively seek out the information on the audit firm in evaluating the quality of an audit of a company you invest in or follow?

Slide 20

We would make the following observations regarding that same chart:

- While the CAQ Investor Survey appears more related to the Firm and Engagement Metrics Rule, rather than the Firm Reporting Rule, there are questions related to information which was being proposed to be disclosed in the Firm Reporting Rule.
- The CAQ comment letter only disclosed the "extremely helpful/useful" and the "extremely likely to proactively seek out" percentage of responses to the questions posed to investors.
- As one can tell from the questions included at the bottom of the chart, the questions asked: "How useful" and "how likely would you be to proactively seek out" the firm level information which was listed? This question would suggest that the responses provided for a gradation of responses (extremely helpful/useful, helpful/useful, neutral, not helpful/useful, extremely not helpful/useful). Yet only the "extremely helpful/useful" and "extremely likely to proactively seek out" responses are included in the survey results included in the comment letter. Other questions in the CAQ Investor Survey framed with similar language (e.g., Slide 24 and Slide 25) provide for a gradation of responses.
- Having conducted many surveys of investors over time, these are very high percentages for the category of "extremely helpful/useful" and the "extremely likely to proactively seek out." Such high response rates for the "extremely" gradation would suggest that the next gradation would also be quite high. The high numbers indicate investors have strong conviction in their views. With "extremely" response rates in the 30-40% it is very likely that all responses on the "helpful/useful" and the "likely to proactively seek out" spectrum of response are well over the majority – more likely in the 70-80% range of support.
- As such, the PCAOB Dissenting Board Member's conclusion that the CAQ Investor Survey is not supportive of investors finding such information "helpful/useful" and "likely to proactively seek out" is incorrect.

- Overall, the CAQ Investor Survey supports investors desire for, and use of, elements of information included in the Firm Reporting and Firm and Engagement Metrics Proposals – much of which has been scaled back in the final rules for each.
- Additionally, it should be noted that the conclusion at the top of the preceding chart regarding the relationship between the "extremely helpful/useful" and the "extremely likely to proactively seek out" percentages is not the key message from the chart. The key takeaway is that these are very high rates of "extremely helpful/useful" and "extremely likely to proactively seek out." It does not seem unreasonable, in our view, for investors to say external review findings would be "extremely helpful/useful" (49%) while reducing their response rate (35%) for "extremely likely to proactively seek out" – because they know that information is not being provided. We would also note there is at least one math error in their gap analysis (e.g., firm governance).

In sum, the Dissenting Board Member uses this Center for Audit Quality (i.e., audit profession advocates) investor survey[11] to indicate investors do not support the disclosure of these various elements of information and that more outreach is needed when in fact the CAQ Investor Survey shows high conviction that investors want this information, which is supported by the comment letters which were received from investors by the PCAOB. Such letters are not cited by the Dissenting Board Member.

Overall, the audit profession has confirmed and validated CFA Institute's long held, and advocated for, views on greater audit firm transparency.

Greater Transparency from Audit Firms Has Been Sought for Nearly Two Decades: Clearly Not Midnight Rulemaking

The Dissenting Board Member asserts that the Firm Reporting Proposal and Final Rule are "midnight rulemaking" stating:

> *But that would have taken time, and* ***the PCAOB has decided to rush this midnight rule before it was ready so that it could have another notch in its belt, never mind the fact that the required disclosures will not directly improve audit quality****.*

The assertion that these rules are midnight rulemaking is more of a political tactic – with the hope the PCAOB will be politicized and there will be a change in PCAOB members in the upcoming administration such that a new Board will delay the rulemaking further – than an argument supported by the facts.

The narrative of "midnight rulemaking" is inconsistent with the facts.

For at least two decades investors have sought greater transparency from and about the audit and audit firms. We highlight above several of the recommendations from the *2008 Advisory Committee on the Auditing Profession Final Report* to demonstrate how long provisions in these Firm Reporting Proposed and Final Rules have been sought.

Below we highlight several additional statements within that 2008 ACAP Final Report which show that the narrative that the Firm Reporting requirements are last minute or "midnight rulemaking" is inaccurate. Consider the following excerpts from that ACAP Final Report.

[11] See Center for Audit Quality Letter at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

Co-Chairs Arthur Levitt (Former SEC Chairman) and Donald Nicolaisen (Former SEC Chief Accountant) made the following observations in Section II of the ACAP Report.

The Important Role of Auditing Firms in Capital Markets (Page 6)

***The major auditing firms are key actors in the public securities markets. They must comply with the same principles of transparency that we ask of other major market actors**, both for the sake of the credibility of the market system as a whole, and for the credibility and long-term health of the firms themselves.*

Additional Areas of Transparency for the Auditing Profession (Page 4)

***Recognizing the recent improvements to public company corporate governance**, the Subcommittee on Firm Structure and Finances recommended a **series of initiatives to enhance transparency of the auditing profession**.*

- *First, the Subcommittee recommended that the PCAOB and the Securities and Exchange Commission (SEC) consider the possibility of **auditing firms' appointing independent members to firm boards or advisory boards**.*
- *Second, the Subcommittee recommended that the **SEC amend public company disclosure requirements to mandate disclosure of all public company auditor changes**.*
- *Finally, the Subcommittee on Firm Structure and Finances recommended **that the larger auditing firms produce a public annual report similar to the European Union's Eighth Directive, Article 40 Transparency Report and including audit quality indicators and also file on a confidential basis audited financial statements.***

Additional Views on Transparency Page 9

As Co-Chairs, we also have additional views in the area of transparency.

***We endorse the recommendation** made by the Committee which calls for the PCAOB to develop standards of disclosure applicable to the auditing firms including a requirement **that by 2011 the largest firms prepare and submit audited GAAP financial statements to the PCAOB**.*

*While we believe implementation of this recommendation would be a significant improvement in providing insights into the auditing profession, **we also continue to believe that at least the largest auditing firms should make audited financial statements available, including to audit committees and the investing public**.*

***Issuance of audited financial statements provides greater transparency and increases discipline and helps sharpen focus, accountability, and trust**.*

***The largest auditing firms play a vital role in ensuring the integrity of our capital markets and fairness requires that if a handful of these firms dominate the public company audit market, they should be transparent and provide a level of financial reporting that is generally comparable to that of the public companies they audit**.*

***We would encourage the largest firms to do so voluntarily, but if that step does not occur, we would have the PCAOB determine the effective date and precise content of such public reports and disclosures**.*

We hope our observations, as Co-Chairs of the Committee, will provide the starting point for a future consensus built around the principles of fairness to all participants in our public markets. Again, this statement reflects the views of the Co-Chairs and not necessarily those of the other Committee member

Lynn Turner, Former SEC Chief Accountant and a member of the ACAP committee, made the following observations in Section IX, Dissenting Statement, of the ACAP Report.

The Committee members were given the choice of either voting for the Report in its entirety and all recommendations therein, or dissenting. They were not given the opportunity to vote for or against individual recommendations.

*As a result, **I dissent to the issuance of the Report as the Committee has voted to recommend that beginning in 2011, audited financial statements of the larger auditing firms will be provided to the Public Company Accounting Oversight Board solely on a confidential basis**.*

At a time when the U.S. capital markets are reeling from a lack of transparency, trust and confidence, such a recommendation will not build trust in the auditing profession, but rather raise further doubts.

Rather ***I concur with the statement of the Co-Chairs of the Committee that these audited financial statements should be made publicly "…available, including to audit committees and the investing public."***

Several members of the Committee also expressed support in public meetings for such disclosure.

Several investors and the Financial Executives International also provided testimony or written comments in support of making such financial information available to the public, just as public companies do.

In addition, ***I note the larger auditing firms are required by law to make audited financial statements available to the public in the United Kingdom and do so on their websites.***

We would also note the Final Firm Reporting Rule discusses the 2014 European Union regulation on transparency reporting[12] and the 2015 IOSCO report, *Transparency of Firms that Audit Public Companies Final Report*. Additionally, in 2015 the PCAOB's own Investor Advisory Group prepared a report on the status of the *2008 Advisory Committee on the Auditing Profession Final Report*.

What the above citations highlight is that the Firm Reporting Proposed Rule to provide audited financial statements for the largest audit firms is not some sort of last-minute idea or midnight rulemaking but a topic of discussion for nearly two decades.

The Firm Reporting Final Rule falls short of the recommendations of the 2008 ACAP Report. Financial statement will be provided to the PCAOB, but they will not be prepared in accordance with US GAAP or IFRS, audited, nor provided publicly as supported by co-chairs and other members of the committee as shown above.

[12] Regulation - 537/2014 - EN - EUR-Lex

OVERARCHING OBSERVATIONS ON CHANGES FROM THE PROPOSED RULE TO THE FINAL RULE

Changes from Proposed Rule to Final Rule are Challenging to Isolate

While we note the PCAOB has provided a summary of the changes from the Proposed Rule to the Final Rule on Page 7 – and that a marked version of the Final Rule relative to the existing requirements is included on Pages 178 to 197 of the Firm Reporting Final Rule – a marked version of the changes from the Proposed Rule to the Final Rule is not provided.

Further, the discussion of the revisions is embedded alongside an analysis of the comments received related to the Proposed Rule. It was very time consuming to assess the precise changes from the Proposed Rule to the Final Rule. As the summary on Page 7 was too generic, we had to prepare the analysis at **Appendix A** to ensure we understood the final effects on transparency to investors resulting from the changes in the detail requirements, the scaling requirements, and the public vs. non-public nature of the information to be provided by the Final Rule.

All Changes Represent Reductions in Reporting Requirements from the Proposed Rule

We analyze and comment in detail on these changes from the Proposed Rule to the Final Rule at **Appendix A** including observations and concerning themes emerging from the respondent comment letters.

We undertook this analysis so that it is readily apparent what investors need to continue to advocate in support of in the future.

Overall, we find all the revisions from the Proposed Rule to the Final Rule are reductions in firm reporting requirements – and the reductions are substantial. No additional information sought by investors was added.

Very Little Additional Transparency for Investors and the PCAOB

In the end, ***investors, and audit committee members, will receive very limited additional transparency from what is provided today as little information is provided publicly. The PCAOB's additional transparency is also very limited.*** Below is our summary of the changes we see emerge from our analysis at **Appendix A**.

1) ***Financial Information*** – Amounts rather than the percentage of firm fees will be provided publicly. The PCAOB will, only on a confidential basis, receive accrual basis financial reports which are unaudited and not on a basis of reporting such as US GAAP or IFRS (i.e., the PCAOB having scaled back on that requirement from the Proposed Rule).

   Despite the calls for audited, US GAAP or IFRS financial statements by the Co-Chairs of the 2008 ACAP report, this information will not be provided. Those auditing US public companies have stated they are not willing or not able to prepare US GAAP or IFRS financial statements to their investor clients, or the PCAOB. It's remarkable that investors entrust audit firms to audit financial statements they themselves cannot prepare or provide for their clients.

2) ***Governance Information*** – Limited articulation of six points of governance information – identity of principle executive officer; existence of governing board or management committee and disclosure of members; identity of audit practice executive officer;

description of legal structure, ownership, and governance of the firm; identity of individuals who have the roles and responsibilities in the QC process; description of the external oversight function of the firms – will be provided publicly on Form 2.

Information on direct reports to the principal executive officer, the person ultimately responsible for the QC system as a whole, and processes that would govern a change in the form of the organization over time were removed in moving from the Proposed to the Final Rule.

As we consider the comments received on governance disclosures, we are concerned that auditors do not understand how governance information is used by investors and should be used by themselves as auditors in assessing the issuer company or in making audit decisions.

3) ***Network Information*** – The PCAOB substantially reduced the public disclosures from the Proposed Rule which would have provided information on the legal and ownership structure of the network, network-related financial obligations, information-sharing arrangements, network governing boards or individuals.

   In the end, the Final Rule includes only a discussion of the network structure and relationship of the registered firm to the network – including whether the registered firm has access to network firm audit methodologies and training; the network firm shares information with the network regarding its audits; and whether the network firm is subject to inspection of the network.

   As we consider the comments received on network disclosures, we are concerned that auditors do not understand for purposes of their performance of an audit the importance of relationships with affiliated organizations and related parties.

4) ***Special Reporting*** – The PCAOB retreated from its proposed 14-day reporting of special events to its 30-day period as currently required – other than for material events where it retained the proposed 14-day reporting period and cybersecurity incidents which it retained the proposed 5-day reporting period.

   The PCAOB added material event reporting in the Proposed Rule – but added instructions to the Form 3 in the Final Rule to explicitly articulate that all such material events are to be reported confidentially – a provision not included in the actual Proposed Rule. Accordingly, investors and audit committees will remain uninformed about any such material events.

   The PCAOB will receive those material event disclosures confidentially, but it has scaled back the disclosure from the Proposed Rule to the Final Rule, only requiring disclosure from audit firms with more than 100 public company audit clients.

   The PCAOB further reduced the list of enumerated events to include only those that affect the provision of audit services and that impact fees billed (versus revenue).

   The PCAOB retained, but altered, the materiality threshold for reporting material events from a materiality threshold that considers an investor's perspective to a materiality threshold that considers the perspective of a "reasonably prudent audit partner". We do not support this change because: 1) audit partners are not the only owners of the audit

firms; 2) investors are not investors in the audit firm per se, rather they are very important customers of the firm; and 3) the interests of audit partners and investors are not aligned in the consideration of material events.

The PCAOB also removed the reporting planned or anticipated events affecting: the structure of the firm; its covenants; and agreements related to firm ownership, services, or governance. The PCAOB is, therefore, not obligated to receive information regarding planned or anticipated firm structure changes such as the split of audit firms or the infusion of private equity into audit practices.

As we consider the comments received on special reporting disclosures, we are concerned that the PCAOB will not receive advance warning of planned or anticipated firm structural changes. We are also concerned by the audit firm's perspective that events which are important to be disclosed publicly by public companies which they audit should not be disclosed publicly by the audit firm in which investors entrust their assurance over financial malfeasance.

5) ***Cybersecurity*** – Only a disclosure of cybersecurity policies will be provided to investors.

Cybersecurity incident reporting will not be made publicly available despite the vast amounts of information regarding investee companies retained by the audit firms. Again, this is another instance where incidents deemed important to disclose publicly by public companies will not be disclosed publicly by audit firms – even if information on their investee company is subject to the incident.

The PCAOB will receive confidential cybersecurity incident reporting; however, the reporting has been substantially scaled back from the Proposed Rule as the PCAOB has removed the requirement that firms disclose consideration of reasonably likely events to only actual events.

Further, the PCAOB isolated that reporting to only the audit practice – rather than related to the audit firm as a whole – and ***excluded the requirement to report when companies under audit or investors are impacted***.

The PCAOB also reduced the disclosure regarding the effects to only determined (not potential) effects, including only information on response capabilities and vulnerabilities and currently estimated (not potential) effects.

The PCAOB also eliminated the requirement to include whether the audit firm has reported the incident to other authorities. They have retained the proposed five-day reporting requirement.

In totality, all investors – and audit committees – will additionally receive based upon the Final Firm Reporting Rule is very generic governance and network information and the cybersecurity policies of the audit firms.

Respondents to the Proposed Rule

No Public Company Issuers & No Audit Committee Members

The PCAOB Board Member dissenting to the Firm Reporting Final Rule[13] highlights that there were 35 comment letters received and only 226 days from the inception and concludes that the project needed more time to consider the comments.

More detailed facts are needed to contextualize that argument against the Final Rule.

There were, in fact, 37 comment letters that amounted to 370 pages of comments to consider. We note the breakdown of comment letters as follows:

- 11from "audit firm lobbyists" and "audit firm advocates" (e.g., the CAQ, AICPA, and state CPA societies (TX, PA, IL)
- 4 from largest (Big 4) audit firms
- 3 from medium sized audit firms
- 7 from smaller audit firms
- 0 from issuers/registrants/public companies
- 1 from public company/audit firm lobbyists (e.g., Chamber of Commerce)
- 2 from investors
- 0 from audit committee members
- 1 from audit committee advocates (e.g., Tapestry)
- 5 from other organizations
- 2 individuals
- 1 academic

This is not an extremely large number of comment letters nor pages for the PCAOB to consider and the Final Rule analyzes the comments received as evident from the Final Rule.

As is always the case, the vast majority (72%) of the comments received – those objecting to the proposal – came from the audit firms (38%) which would be subject to the regulation and audit firm advocates (34%) working on their behalf. The argument by the Dissenting Board Member that the PCAOB did not consider the comments of the audit firms – or that the Final Rule is extreme – is inconsistent with the facts and the reductions in the requirements from the Proposed to the Final Rule.

It is important to note that no "real public companies" and nor "real audit committees/audit committee members" commented in objection to the proposal – something they did related to the NOCLAR proposal. Only one "audit committee advocate" responded with a 4-page letter which more significantly addressed the Firm and Engagement Metrics Proposal. As such, it is fair to conclude that neither preparers nor audit committees were significantly opposed to the Proposed Rule.

Investors supported the proposal. The PCAOB Dissenting Board Member makes no reference to the investor's letters received in support of the Proposed Rule – including that of the PCAOB's own Investor Advisory Group.

In a recent public statement, the PCAOB Dissenting Board Member also indicated that rulemaking should be a democracy based upon the number of comment letter received and

[13] See PCAOB Board Member Ho's Statement of Dissent to Firm Reporting Proposal at: Statement on the Firm Reporting Proposal – Are We Regulating the Audit Firms or Driving Out Competition? | PCAOB

the majority view. This is a troubling perspective which suggests that the PCAOB should consider the views of the audit firms – who always respond in greater number because of the direct financial interest in the lack of transparency and their more intimate knowledge of the auditing standards and rulemaking – than investors who are not audit standard setting experts and who suffer from a lack of transparency on the issues. The PCAOB's mission is to protect investors – not decide rulemaking based upon the number of comment letters received.

Interestingly, as highlighted previously, advocates for the auditing profession found in their survey of over 100 investors – the CAQ Investor Survey[14] – that those investors sought out and used firm reporting information – though the audit profession advocated against their investor clients obtaining such information.

In substance, more investors provided feedback to the PCAOB than did audit firms if the number of respondents to that the CAQ Investor Survey are included in the count of those in support of versus those opposed to the Proposed Rule.

In the Final Reporting Rule, you can see the PCAOB analysed the comments in detail. And, as we highlight above, all the changes in moving from the Proposed to Final Firm Reporting Rule were reductive in response to the objections of the audit firms.

Themes Emerging from Consideration of the Comment Letters and the Dissenting Board Member Views

Traditional Arguments Against Transparency Emerge

Many of audit firm objections to the Proposed Rule included traditional refrains against transparency rulemaking in the financial reporting and auditing ecosystem, including the following: release of proprietary information; costs; disclosure overload, confusion to investors, etc.

In advance of recognition of stock-based compensation as an expense we heard assertions that its recognition would halt innovation in the technology sector. Before the recognition of lease liabilities we heard that recognition of leasing obligations would kill the leasing industry. As it relates to earlier audit transparency reforms, we heard similar arguments used to oppose the disclosure of auditor tenure, the name of the audit partner, and critical audit matters.

Our experience in providing investors views on reforms on accounting and audit issues is that the benefits to investors are always undercounted and that the reforms are always portrayed as overly costly (i.e., SOX 404) and will result in drastic consequences (i.e., the disclosure of stock compensation expense will kill innovation, the leasing industry will die, and the disclosure of audit partners would harm the firms and audit partners, etc.) These drastic consequences never seem to manifest themselves.

[14] See Pages 20-38 of the CAQ Investor survey at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

Additional Troubling Themes/Narratives Emerge in the Comments and Dissenting Views

As we considered the PCAOB staff's analysis, within the Final Rule, of the comments received on the Proposed Rule and the views in the Dissenting Board Member's statement, we noted several troubling themes emerge. The include:

- *Rule is Midnight Rule Making* – There is a failure to recognize (i.e., the assertion that this Final Rule is "midnight rulemaking") the long-history, at least 20 years, of the call for greater firm and audit transparency on the elements of these Firm Reporting and the Firm and Engagement Metrics Rules. We address this above to refute this false narrative.
- *Lack of Understanding of Corporate Governance Over the Audit* – There is a lack of understanding of the audit committee/investor agency relationship and corporate governance broadly as well as the corporate governance responsibilities of investors. Those responsibilities include the appointment of audit committee members and the vote to ratify the auditor's appointment. This lack of understanding includes a lack of appreciation for how little transparency investors really have to cast these votes.
- *Lack of Understanding of Investor Stewardship Responsibilities* – There is a lack of understanding regarding how investors execute their stewardship responsibilities including not only detailed financial analysis but consideration of corporate governance matters and a broader strategic evaluation of both suppliers and investee companies. Said differently, investors care not just about the ticking and tying of the detailed audit but the structure, governance and financial wherewithal that drives the ability of the supplier to perform and deliver upon the contracted services, such as audit services.
- *Direct Link to Audit Quality is Used to Dismiss Transparency Reforms, Yet Audit Quality is Never Defined and the PCAOB's Mandate is Investor Protection not Audit Quality Per Se* – To dismiss transparency reforms there is continual reference to audit quality – which is amorphous and never defined by the audit firms. Further, audit quality is not articulated in the PCAOB's mission. Rather, the broader concept of investor protection is the mission of the PCAOB. Further, there is a failure to recognize the PCAOB abandoned the notion of "audit quality indicators" in the Firm and Engagement Metrics Proposal because of the difficulty in defining audit quality.
- *Focus on Tactical Audit Procedures, Rather than Strategic Firm Considerations Which Impact the Performance of Audit Procedures and Delivery of Audit Services* – There is a continual reference to a "direct link" to audit quality or audit services, yet – like audit quality – the proximity or the closeness connoted by a "direct link" is never articulated or defined. The comments reflect a desire to focus on the detailed tactics of the audit and not the bigger picture matters which drive the behavior of those performing the audit. In our view, this creates a focus on tactical audit procedures and misses the bigger picture impact regarding how financial strength, corporate governance, and risk management – or the bigger picture strategic firm considerations – impact the delivery of audit. Specifically, their importance to professional skepticism and independence. Investors focus not only on financial analysis, but strategic considerations included within corporate governance and risk management because they have profound effect on company operations – as they do on audit firm operations.
- *Challenge to PCAOB's Statutory Authority Without Defining How, Nor Recognizing the Broad Mandate of Investor Protection and the Public Interest* – There is a continual reference to the PCAOB's lack of statutory authority to require such the proposed information, but a precise explanation of how the requirement falls outside the PCAOB's statutory authority is never supported by a well-articulated explanation regarding how it is not within the PCAOB's statutory authority. Rather, it is simply an unsupported assertion. Investor protection, as a mission, provides a very broad statutory mandate for transparency, in the view of investors.

- *Failure to Recognize Investors, Not Audit Committees or Management, Are the Client* – We also note that investors – not the company or the audit committee – are the auditor's client; hence, the arguments against the transparency provisions are arguments against the firm's own clients.

The Multi-Disciplinary Audit Firm Model: Reconsideration of Our Support

During the 2018 to 2021 UK Government review of the auditing profession, we supported retention of the multi-disciplinary operating model for the auditing firms. When EY proposed a split-off of its consulting arm, we supported retaining the multidisciplinary model.

As we consider the comments of, and objections by, the audit firms in their responses to the Proposed Firm Reporting Rule, we think we need to reconsider this position because it is being used as a reason for not providing greater transparency to investors.

A theme emerging throughout many of the comment letters is that the audit firm's other business segments (non-public audit and non-audit services) should not be of interest to investors nor under the statutory authority of the PCAOB, because they do not relate directly to the provision of public company audit services. Unfortunately, this argument is not compelling in the valuation of a business, nor in the assessment of the legal entity suppling audit services. The financial well-being, leadership, governance and risk management of the entire firm is of interest to investors.

For that reason, we believe we are going to have to reconsider our support for the multi-disciplinary audit firm model given it is used to argue against the transparency to, and protection of, investors in their pursuit of their stewardship responsibilities. As the arguments have been presented, it appears that only a legal split, rather than operational split, will resolve these narratives against greater transparency.

Dissenting Board Member View That Final Rule is Extreme is Without Merit

We were surprised by the statement, *Extremism in the Name of Investor Protection*, of the PCAOB Dissenting Board Member when it was first issued in November because it asserted the changes in the Final Rule resulted in extreme rulemaking.

After we considered the changes from the Proposed Rule to the Final Rule in **Appendix A**, we found this "extremism" assertion even more surprising given the significant rollback of the provisions from the Proposed Rule to the Final Rule combined with the very little additional transparency provided to the public – and to the PCAOB, frankly – resulting from the Final Rule, as we summarize above.

Because of this assertion and the call within this same statement by the PCAOB Dissenting Board Member for the PCAOB to be subject to Congressional Oversight – combined with statements made by this same PCAOB Dissenting Board Member in their dissent on the Firm and Engagement Metrics Final Rule and other recent statements by the PCAOB Dissenting Board Member at, for example, the December 2024 AICPA/SEC Conference – we undertook to analyze the PCAOB Dissenting Board Member's statement and address the arguments against the Final Rule in detail at **Appendix B**.

Overall, we note the PCAOB Dissenting Board Member statement never explains how the reforms are extreme – let alone extreme in the name of investor protection – given how little additional information investors, and the PCAOB, will receive.

It appears such hyperbolic narratives are being claimed to increase the political rhetoric around the PCAOB – in hopes this will result in a complete turnover of the PCAOB – to the detriment of investors and investor protection.

There is nothing extreme in the name of investor protection in the very, very modest changes made in the PCAOB's Final Rule, but this requires a detailed study of the Final Rule rather than listening to asserted narratives about the Final Rule. We undertook the analysis of the Final Rule at **Appendix A** and Dissenting Board Member's statement at **Appendix B** to provide the appropriate context to such narratives.

The Final Rule Falls Far Short of Investors Requests and the Recommendations & Spirit of the 2008 ACAP Report

We supported the Proposed Rule and believed in certain circumstances the Board should have gone further. For example, in requiring publicly available audited financial statements for the largest firms. We are very, very disappointed that the reforms fall so short of investors' requests and the recommendations included within, and the spirit of, the 2008 ACAP Report.

We have spent substantial time analysing the comments on the Proposed Rule and conclusions in the Final Rule along with the Dissenting Board Members statement because we believe investors – the audit firms' client – will continue to assert the need for such transparency.

The audit profession seems to believe that remaining a credence good is in their best interests, but it perpetuates an inability for investors – their ultimate client – to: advocate on their behalf for more reasonable fees; to value the profession; and to force the profession not to be judged by its worst moments (i.e., the public press regarding their failed audits); rather than the good work they do every day.

We will support the proposed changes – though disappointed by their very, very modest nature – as we know change is incremental. As we note above, we analyze the net result of the changes for purposes of retaining the thinking around the transparency disclosures for future advocacy on these matters.

THE POLITICAL RHETORIC REGARDING THE PCAOB

As we state above, we believe that the modest nature of these reforms created by this Final Rule are being lost in the hyperbolic political narrative around the Final Rule including the aforementioned commentary by the Dissenting Board Member; comments made at the 2024 AICPA/SEC Conference by Congressman French Hill; recent press on the PCAOB; and speculation and press regarding the impact of the 2024 election on the PCAOB composition given its recent history. In the coming weeks. we will issue commentary on our views on the harm caused to the PCAOB and investors by politicizing the PCAOB.

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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

cc:
U.S. Securities and Exchange Commission
- Gary Gensler, Chair
- Hester M. Peirce, Commissioner
- Caroline A. Crenshaw, Commissioner
- Mark T. Uyeda, Commissioner
- Jaime Lizárraga, Commissioner
- Paul Munter, Chief Accountant

Public Company Accounting Oversight Board
- Erica Williams, Chair

CONSIDERATION OF THE CHANGES FROM THE PROPOSED RULE TO THE FINAL RULE

FINANCIAL INFORMATION

Fee Information

We are pleased that the PCAOB did not eliminate reporting fee information in amounts rather than percentages, but we would have preferred both.

That said, amounts can result in easier comparison between issuer/public companies fees and the total fees paid to the firm. Investors want to be able to readily assess the concentration risk associated with particularly large public company audit fees to the size of the firm's total audit fees.

We are disappointed to see the removal of fee information for non-public clients and non-audit services and by the fact that investors – while they can see total fees – cannot ascertain the fees by segment (i.e., public company audit, non-public company audit, non-audit services and tax services).

We believe as the audit firms are charged with the public interest, this information and segment information more broadly (i.e., as required by US GAAP or IFRS) is important to understand holistically the commercial interests of the firms they have entrusted to be their auditor.

Financial Statements

We are disappointed in the PCAOB's decision to eliminate the requirement that the largest firms prepare their financial statements in accordance with an applicable reporting framework (e.g., US GAAP or IFRS).

We understand that the firms prepare information for partners based upon their partnership tax requirements, which may involve different cash, modified cash, or accrual-based accounting.

That said, we believe – as stated by the ACAP Co-Chairs in the body of the letter to which this appendix relates – that the largest audit firms are charged with auditing the largest of U.S. public companies and should be held to a standard similar to public companies. Public company investors are relying – and substantively investing – in their financial wherewithal as suppliers of audit services. They are the audit firm's client.

If audited US GAAP or IFRS financial statements are to be those upon which U.S. investors are to rely, and investors are to trust the work of these largest audit firms in ensuring application of those accounting principles at public companies and auditing them in accordance with the PCAOB standards, ***it seems incomprehensible that the largest audit firms who are charged with performing this work – and serving the public interest of the world's largest capital markets – cannot provide such information publicly to their clients (i.e., investors) and audit committees, let alone confidentially to the PCAOB***.

That the audit firms won't, or don't, have to provide audited US GAAP or IFRS financial statements even confidentially to an audit regulator means that no one charged with the

governance of the audit firms in the name of investor protection can make truly informed and comparable decisions about the audit firms.

We continue to believe the largest firms auditing public companies should publicly provide audited financial statements prepared in conformity with US GAAP or IFRS such that audit committees can make informed auditor selection decisions and investors can execute their stewardship responsibilities.

Overall

As we consider the comments received by the PCAOB, related to the financial information disclosures in the Proposed Rule – and financial statement information more specifically – we find that commenters opposing these revisions fail to understand that firm financial strength, governance and risk management drives incentives that guide the behaviour of firm management and staff including professional scepticism and independence.

Such financial information is an essential element of financial analysis for investment, credit and supplier decision-making. Arguments that investors should not be interested in the other segments of the firm's business, or its governance are inconsistent with how credit analysis of a supplier would be performed. Investors are relying on the whole firm – not simply the public company audit segment of the firm.

GOVERNANCE INFORMATION

Changes from the Proposed Rule

We appreciate the PCAOB's retention of many of the provisions of the proposed governance reporting requirements; resistance to moving to a principles-based disclosure regime; and decision not to rely solely on inconsistent and incomparable information in existing firm transparency reports.

That said, we were disappointed to see the removal of the disclosure of:

1) Direct reports to the principal executive officer – as such information conveys organizational structure and accountability for the firm's various segments and differs widely amounts the firms' various structures.
2) The person ultimately accountable for the QC system as a whole – as we want to know where ultimate accountability rests for the QC system.
3) The processes that would govern a change in the form of the organization – as this is highly relevant in the context of recent actual or attempted structural changes of the firms such as the split of audit and consulting practices and the entry of private equity or alternative practice structures into the audit firm market.

As we understand the rulemaking, these governance requirements in Item 1.4 of Form 2 will be publicly available.

Confusion Over the Use of Governance Information by Investors

The objections to many of these disclosures as outlined on Page 50 of the Firm Reporting Final Rule reflect, in our view, a lack of understanding regarding how important governance matters are to investors and the resources dedicated to governance by sophisticated investors. These governance professionals are, in fact, the personnel within investment organizations which cast the votes for audit committee members and the auditor ratification vote.

Legal structure, key personnel and governance processes are central to financial analysis and decision-making of investors. Sophisticated investors have teams of individuals who specialize in effective governance practices and would find such information useful in assessing the behavioural, cultural and legal implications of audit firm governance when making an audit firm ratification vote.

Investors routinely utilize governance disclosures – such as the PCAOB's proposed governance disclosures which are modelled after public company disclosures – along with firm information in their analysis of public companies and would, if provided, do so for the audit firm (i.e. supplier) of audit services.

Collectively, the governance information – and the changes in the information over time – paint a picture of the structure, priorities, and tone at the top of the audit firm, just as they do for an investee company. Investors should not have to reference multiple sources of information, collate this information and attempt to connect to the legal structure of the firms to assess, for example, the impact of the split of the audit and consulting practices of a firm or the impact of the entry of private equity into the audit business.

As we discuss in the body of the letter to which this appendix relates[15], nearly 40% of investors surveyed by the Center for Audit Quality (i.e., audit profession lobbyists) indicated they would find such information "extremely helpful/useful" and would be "extremely likely to proactively seek out" such information.

[15] See the section in the body of the letter. to which this appendix relates, entitled: *Through Survey of Investors, Audit Profession Advocates Find That: Investors Often Navigate the PCAOB's Registered Firm Website, Investors Find Forms 2 and 3 Provide Useful Information, and Investors Have High Conviction on Disclosure Elements Being Extremely Helpful and Extremely Likely for Them to Seek Out*

See also Slide 20 on Pages 20-38 of the Center for Audit Quality Investor Survey at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

In our analysis we find:

- The CAQ comment letter only disclosed the "extremely helpful/useful" and the "extremely likely to proactively seek out" percentage of responses to the questions posed to investors.
- As one can tell from the questions included at the bottom of the chart, the questions asked: "How useful" and "how likely would you be to proactively seek out" the firm level information which was listed? This question would suggest that the responses provided for a gradation of responses (extremely helpful/useful, helpful/useful, neutral, not helpful/useful, extremely not helpful/useful). Yet only the "extremely helpful/useful" and "extremely likely to proactively seek out" responses are included in the survey results included in the comment letter. Other questions in the CAQ Investor Survey framed with similar language (e.g., Slide 24 and Slide 25) provide for a gradation of responses.
- Having conducted many surveys of investors over time, these are very high percentages for the category of "extremely helpful/useful" and the "extremely likely to proactively seek out." Such high response rates for the "extremely" gradation would suggest that the next gradation would also be quite high. The high numbers indicate investors have strong conviction in their views. With "extremely" response rates in the 30-40% it is very likely that all responses on the "helpful/useful" and the "likely to proactively seek out" spectrum of response are well over the majority – more likely in the 70-80% range of support.

Governance Disclosures, Like Firm Reporting, Have Been Long Requested by Investors

In 2015 the PCAOB's own Investor Advisory Group prepared a report on the status of the *2008 Advisory Committee on the Auditing Profession Final Report* noted the following[16]:

> *Accordingly,* ***improving the governance of the audit firms,*** *and* ***increasing their transparency*** *to* ***match standards applicable to public companies****, would* ***enhance investor confidence in the decision making of these firms*** *and the* ***reliability of their audits****.*

NETWORK INFORMATION

The Importance of Network Firms and Network Information to Investors

Until audits failed, many investors in US public companies did not appreciate the extent of audit work done by non-US affiliated network firms of the Big 4 (or other firms). Only when audits failed did investors really learn the intricacies of the affiliated firms and the challenges in pursuing legal remedies. This is why investors supported the disclosures of the extent of work done by other audit firms, including network firms, on Form AP (Auditor Search) in 2016.

But that information remains insufficient as neither investors – nor the PCAOB – have an understanding of the precise nature of the individual PCAOB registered firms and their relationship to the overall global firm and the other member firms within the network. For that reason, there needs to be greater transparency regarding the firms' networks.

In the last year we have seen large, affiliated network firms of the Big 4 embroiled in high profile scandals[17]. These include the training cheating scandal at KPMG's very large, affiliated firm in the Netherlands; the tax reform disclosure scandal by PwC's affiliate in Australia; and the challenges PwC has faced with its Chinese affiliate over the audit of a Chinese property company.

These firms are not only network firms, but PCAOB registered firms within the network. And while the PCAOB has information for individually registered firms within the network, they do not have robust information for network firms which are not registered firms per se, and more importantly, the PCAOB – let alone audit committees and investors – have little to no information regarding the precise structure of the global network; the election of leadership of the global firm; requirements and agreements regarding how the firm structure may be changed; operating procedures and agreements – including quality control requirements; and financial arrangements between and among the network firms. Essentially, the PCAOB may know elements of the individual registered firms (i.e., the spoke), but they

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[16] See Page 10, PCAOB Investor Advisory Group, Investor Advisory Working Group Progress and Update Report on Advisory Committee on Accounting Profession's Recommendations

[17] Examples include:

- US Audit Regulator Imposes Record Penalty on KPMG Netherlands for Exam Cheating by Hundreds of Professionals
- PCAOB Sanctions PwC Australia for Violations Related to Reporting and Quality Control Monitoring Requirements | PCAOB
- *PwC tax scandal - Wikipedia*
- *China hits PwC with six month ban and large fine in record penalty over Evergrande audit | Reuters*

have limited to no information on the global firm (i.e., the hub) and how the hub and spoke operate (i.e., the network) in tandem.

The latter two PwC scandals are having dramatic impacts on the operations and financial strength of PwC in such countries and the brand of the global firm overall. These examples not only highlight the importance of financial, governance and risk management of registered firms as included in the Proposed Rule, but they also, unequivocally demonstrate the importance of understanding how the global network operates and the impact on the global firm and other members within the network.

The nature of the relationships within the firm network has an impact on the behaviour, financial wherewithal and independence of the individual network firms and the global firm which are important to audit quality – in the same manner as the individual firm governance information described in the preceding section is important to investors. For these reasons, we believe the requested information in the Proposed Rule was useful to investors and clearly within the PCAOB's statutory authority of investor protection.

Changes from the Proposed Rule

Because the precise changes are difficult to see on Pages 58 and 59 of the Final Rule, we compared the language from the Proposed Rule and to the language in the Final Rule as shown below.

***Proposed Rule Language**:*
The description should ***include:***

- ***the legal and ownership structure of the network,***
- ***network-related financial obligations*** *of the registered firm* ***(e.g., loans and funding arrangements to or from the network member firm),***
- ***information-sharing arrangements*** *between the registered firm and the network (including both sharing of such information as training materials, audit methodologies, etc. and sharing of audit client information), and*
- ***network governing boards or individuals to which the registered entity may be accountable****.*

Final Rule Language:
The description should ***discuss:***

- *the* ***network structure and the relationship of the registered firm to the network****, including:*
  - *whether the* ***registered firm has access to resources such as firm methodologies and training****,*
  - *whether the* ***firm shares information with the network regarding its audits****,*
  - *whether the* ***firm is subject to inspection by the network****, and*
  - *any* ***other information the registered entity considers relevant to understanding how the network relationship*** *relates to its conduct of audits.*

Changes from Propose to Final Rule
The description should ~~include the legal and ownership structure of~~discuss the network~~, network related financial obligations~~ structure and the relationship of the registered firm ~~(e.g., loans and funding arrangements~~ to ~~or from~~ the network ~~member firm), information sharing arrangements between,~~ including whether the registered firm ~~and~~ has access to resources such as firm methodologies and training, whether the firm shares information with the network regarding its audits, whether the firm is subject to inspection by the network ~~(including both sharing of such~~ , and any other information ~~as training materials, audit methodologies, etc. and sharing of audit client information), and network governing boards or individuals to which~~ the registered entity ~~may be accountable~~considers relevant to understanding how the network relationship relates to its conduct of audits.

The PCAOB substantially reduced the public disclosures from the Proposed Rule which would have provided information on the legal and ownership structure of the network firm; network-related financial obligations; information-sharing arrangements; and network governing boards or individuals.

Instead, the Final Rule only includes discussion of the network structure and relationship of the registered firm to the network – including whether the registered firm has access to network firm audit methodologies and training; the network firm shares information with the network regarding its audits; and the network firm is subject to inspection by the network. The Final Rule would also allow firms to optionally provide additional information.

The PCAOB made this adjustment in response to audit firm comment letters, but in doing so provided little to no additional useful information to investors – as the information provided is likely to be qualitative and boilerplate.

Consideration of the Comments Leading to the Change from the Proposed Rule

We reviewed the PCAOB's consideration of the comments provided by the audit firms. As with the governance disclosure comments opposing the Proposed Rule, the comments opposing network disclosures – as set forth of Page 56 and 57 – reflect the routine arguments (i.e., sensitivity, unclear how the information will be used, investors/audit committees will be confused, unintended consequences, etc.) against transparency.

Interestingly, it is noted that one commenter says the information wrongly focuses on financial strength rather than audit quality. We are particularly concerned by comments and the assertion that transparency disclosures should only focus on the direct conduct of the audit and not financial strength of the network firm, its governance aspects, its financial obligations and any relationships with the registered firm. Financial strength and such relationships are integral to professional scepticism and independence and ultimately audit quality.

As we address below in our discussion of the Dissenting Board Member's views, this reliance or reference to "directly linked to the audit or audit quality" as a basis to reduce disclosure requirements misses the bigger picture of the PCAOB's mandate which is investor protection. Further, what is meant by a "direct linkage to the audit" is never defined by the commenter or the PCAOB. For that matter, neither is "audit quality". As stated above, the PCAOB's mandate under SOX is investor protection not the quality of the audit per se. Financial strength of the audit firm is clearly within the definition of investor protection because of its link to auditor scepticism and independence – tenants of the general responsibilities of the auditor – the ability for investors to be protected when audits fail.

SPECIAL REPORTING

We continue to believe the requirements in the Firm Reporting Proposed Rule are best suited to serve the PCAOB's ability to protect the public interest. The confidential nature of many of the special reporting and material events inhibits the ability of audit committees and investors to assess the financial wherewithal and structure of suppliers of audit services which impacts the public interest given the concentration of the audit firms.

Investors and audit committees need to understand such significant events to make decisions regarding the supplier of audit services.

For example, the recent press around the split of EY's audit and consulting practices heavily focused on the payout to audit partners, but there was little discussion of the impact of such a

separation on audit quality in the press or by EY. EY did not make a case with respect to their public interest objective and mandate. Similarly, while there is much discussion of the entrance of private equity into the ownership of audit firms and the structural changes to the audit firms, these changes are opaque to the investing public. Investors are interested in the behavioural changes brought about by proposed and actual transactions – such as private equity – which might impact the delivery of independent high-quality audits.

The modifications to the Proposed Rule represent a substantial scaling back from the original proposal and include the following revisions:

1) ***Special Reporting & Cyber Incident Reporting Deadline*** – The PCAOB rescinded its original proposal to accelerate the Firm 3 reporting from 30 to 14 days and retained its proposal to require more accelerated reporting, 14-days, for material events. It also retained the proposed five-business day reporting for cyber security incidents.

2) ***Confidentiality of Material Events & Cyber Incident Reporting*** – In the Proposed Rule the PCAOB suggested in the discussion of the Form 3 rule that they intended the information related to material events to be filed confidentially with the PCAOB, but the actual Form 3 rule did not state that intent as a requirement. The rule related to cyber incident reporting specifically stated the information would be filed confidentially.

   The PCAOB appears – though not obviously communicated in the discussion of the Final Firm Reporting Rule – to now have included in the instructions to Form 3 that none of the material events, as well as cyber incident reporting, will be disclosed publicly. That addition is below:

   > *11.* ***Information filed on Form 3 pursuant to Items 8.1 [Material Events Reporting] and 9.1[Cyber Incident Reporting] shall be non-public****. A registered public accounting firm may submit, in connection with reports related to those items, a request for Board notification in the event that the Board is requested by subpoena or other legal process to disclose reports pursuant to those items. The Board will make reasonable attempts to honor any such request.*

   In sum, none of the material events reported to the PCAOB will be made public. The firms do not have to elect to make them confidential – as is required for other special reporting – they are simply not reported publicly.

3) ***Material Events Reporting Modifications*** – The PCAOB also reduced the material events reporting as follows:
   - <u>*Scaling Requirement*</u> – The PCAOB is limiting the application of this provision to audit firms with more than 100 issuers. The following was added to the General Instructions to Form 3.

     > *12.* ***Reporting under Item 8.1 is required only by a registered public accounting firm that****, during the prior calendar year****, issued audit reports with respect to more than 100 issuers****.*

     This scaling reduction was not done for cyber incident reporting.

- *Modification of Enumerated List of Reportable Material Events* – Because the language regarding the changes in the enumerated list of reportable material events in moving from the Proposed to the Final Rule was hard to discern from the language in the Final Firm Reporting Rule, we prepared a detailed comparison of the Proposed and Final Firm Reporting Rules to make such changes more obvious. It is provided below for clarity.

Part VIII – MATERIAL EVENT REPORTING

Item 8.1

Any event or matter that poses a material risk, or represents a material change, to the firm's organization, operations, or liquidity that will affect the provision of audit services.

Only a registered public accounting firm that, during the prior calendar year, issued audit reports with respect to more than 100 issuers is required to report under this item.

If there has been 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~~in such a manner that it will affect the provision of audit services, indicate by checking this box and provide a brief description of the event. Such events or matters would include, but would not be limited to:

• Any event or matter that has materially impacted or is reasonably likely to materially impact the firm's total ~~revenue~~fees billed as reported in its last Form 2 filing;

• A determination that there is substantial doubt about the firm's ability to continue as a going concern;

~~• Planned or anticipated acquisition of the firm, change in control, or restructuring, including external investment and planned acquisition or disposition of assets or of an interest in an associated entity;~~

• Entering into or disposing of a ~~material~~ financial arrangement that would materially affect the firm's liquidity or financial resources (such as a line of credit, revolving credit facility, revolver, loan, or other financing), or group of related arrangements;

~~•~~ Any ~~actual or anticipated~~ non-compliance with loan covenants;

• Material changes in the insurance or loss reserves of the firm and material changes related to captive insurance or reinsurance policies including events that triggered material claims on such policies;

• Material adverse changes in the amount of unfunded pension liabilities;

• The firm has entered into~~, or plans to enter into,~~ a definitive agreement or other arrangement that would cause a material change to the firm's ownership, operations, governance, or provision of services (e.g., spinning off consulting business or severing a portion of the business for private equity involvement);

• That the firm has obtained a license or certification authorizing the firm to engage in the business of auditing or accounting and which has not been identified on any Form 1 or Form 3 previously filed by the firm, or there has been a change in a license or certification number identified on a Form 1 or Form 3 previously filed by the firm; or

~~• A change in principal executive officer; or~~

~~• Any other planned or anticipated material amendments or changes to the firm's organization, legal structure, or governance.~~• A change in principal executive officer. Note: The term "material" should be understood to limit the reported information to those matters about which a prudent audit firm partner would reasonably want to be informed, applying the general principles of qualitative materiality familiar from the securities law context. This understanding of materiality is applicable only to reporting under Item 8.1. This item is not intended to capture routine or recurring events.

Note: The filing deadline for Item 8.1 item is 14 days or more promptly as warranted. For purposes of responding to Item 8.1, the 14 days begins to run on the day the firm determines that the event is material. This item is confidentially reported.

Item 8.2

With respect to Form 2, Item 1.4(f), if such a person as is described in Form 2, Item 1.4(f) (the EQCF) is appointed, resigns, is dismissed, ceases to meet the criteria to be a person designated in Item 1.4(f), or changes roles, report the date of such event, and whether the change was recommended or approved by any governing board or management committee.

The PCAOB notes in its discussion of the changes from the Proposed Rule to the Final Rule that despite believing they retain the statutory authority to request the information they are reducing the reporting of events as follows:

- *Audit Services* – The PCAOB is limiting the reporting of events that must impact the provision of audit services.
- *Planned and Anticipated* – The PCAOB is removing the language that requires the reporting of material events that are planned or anticipated and now only requiring the reporting of events that have occurred as noted on Pages 70-71 of the Firm Reporting Final Rule.
- *Materiality Interpretation* – The PCAOB is retaining but altering the materiality threshold from a materiality threshold that considers an investor's perspective to a materiality threshold that considers the perspective of a "reasonably prudent audit

partner." We do not support this change because: 1) audit partners are not the only owners of the audit firms; 2) investors are not investors in the audit firm per se, rather they are very important customers of the firm; and 3) the interests of audit partners and investors are not aligned in the consideration of material events.

- *Reporting Clock* – The PCAOB is retaining the reporting clock criteria as proposed.

The PCAOB notes that it is not intending to assert operational control over the audit firms or solicit information regarding non-audit operations and that their aforementioned revisions illustrate this.

The net result from these revisions in special reporting is that the PCAOB only receives information on past events that reasonable audit partners believe are important – rather than what the audit regulator protecting the interests of investors or investors believe is important – and investors and audit committees receive no additional information from the special reporting provisions.

CYBERSECURITY

Importance of Cybersecurity Risk

Cybersecurity risk is an important risk that can create operational, financial and reputational damage for the audit firms and investors.

The audit firms are a prime source of information for hackers as they retain information not only about their audit and audit methodologies, but they represent an aggregated source of information regarding America's largest public companies. The Big 4 audit nearly all the S&P 500 companies and each represents a source of confidential business information of nearly 1/4th of America's largest public companies.

Investors Will Receive No Notification of Cybersecurity Incidents

We support the PCAOB's efforts in the Firm Reporting Proposed Rule to require cybersecurity reporting – ***though we note that the PCAOB has retained its view that such information will only be filed confidentially with the PCAOB – despite the potential exposure of information on investee companies. The investing public needs to understand when a breach of the audit firm's data has occurred as it has bearing on the companies they invest in.***

The only information investors will receive as a result of this rule change will be generic/boilerplate cybersecurity policies of the audit firms.

Event Reporting to PCAOB Was Scaled Back

The PCAOB has substantially scaled back the cyber incident reporting requirements in moving from the Proposed Rule to the Final Rule. Those revisions include the following:

1) ***Cybersecurity Incident Reporting*** –

a. *Clarity and Scope of the Term of "Significant Cybersecurity Incident"* – The PCAOB has altered the definition of "significant cybersecurity incident" from the definition in the Proposed Rule which was as follows:

> *We propose to define "significant cybersecurity incidents"* ***as those that have significantly disrupted or degraded the firm's critical operations, or are reasonably likely to lead to such a disruption or degradation; or those that have led, or are reasonably likely to lead, to unauthorized access to the electronic information, communication, and computer systems (or similar systems) ("information systems") and networks of interconnected information systems of the firm in a way that has resulted in, or is reasonably likely to result in, substantial harm to the audit firm or a third party, such as companies under audit or investors****.*

To the revised definition which includes:

> *We have altered the proposed definition of "significant cybersecurity incidents."* ***Now, we define this term as those cybersecurity incidents that have significantly disrupted or degraded the firm's operations critical to the functioning of the audit practice; or those that have led to unauthorized access to the electronic information, communication, and computer systems (or similar systems) ("information systems") and networks of interconnected information systems of the firm in a way that has resulted in substantial harm to the audit firm's critical audit-related operations.***

The PCAOB notes that:

> *This* ***new definition removes the "reasonably likely" threshold and only includes events that have impacted a firm's audit practice****.*
>
> *We also elected to maintain the modifier "significant" instead of "material," as recommended by some commenters, since we believe our defined term "significant cybersecurity incidents" would invite less confusion than one that integrates a well-established concept like materiality.*
>
> *Further, we are still requiring a determination of substantial harm. We believe that other suggested alternatives, like "substantial impact," are broader and turn the focus away from the negative impact that our disclosure rule aims to capture.*
>
> *We also clarified in the new definition that the substantial harm should affect the audit firm's critical audit-related operations. While we maintain that this rulemaking falls within our statutory authority such a change should assuage commenters' concerns around the degree of speculation involved in the proposed definition and the inclusion of harm to third parties.*

The PCAOB has not only removed the reasonably likely threshold and limited the scope from audit firm to audit operations but has removed the requirement to disclose if there has been an impact to companies under audit or investors.

b. *Reporting Time Frame & Nature of Effect Reported* – The PCAOB retained the reporting time frame given the contents of the reporting and ***lessened the nature of the reporting from "the effect of the incident on the firm's operations" to "the determined effects of the incident on the firm's operations"*** noting:

> *Such a change should* ***alleviate the need to provide definitive conclusions regarding the incident's effects and allow for estimates to be reported, with the option for future regulatory follow-up****. We believe that the adjustments to the requirement will mitigate the cost burdens associated with this reporting for both small and large firms. Firms also have the option of following up with the PCAOB should they discover more information about the breach after the five-business-day period.*

c. *Clarity on Other Terms & Information to Be Reported* – In response to comments on the Proposed Rule on the clarity of other terms and information to be reported the PCAOB decided to require only:

i. *Information on Response Capabilities and Vulnerabilities* – The Final Rule will only require information regarding response capabilities and the vulnerabilities that would indicate whether or not the firm is remediating the incident and, regardless of the level of detail provided, this information will remain confidential.

ii. *Estimates of Effects* – The Final Rule will only require audit firms to report estimates of effects to satisfy this disclosure requirement and thereafter update the PCAOB as information becomes clearer, if appropriate. Such estimates may be later clarified via regulatory-follow-up. Such follow-up will be based on the facts and circumstances of the particular disclosure and will be performed on an informal basis with PCAOB staff.

The PCAOB also decided to amend Form 3, but not the rule text, to include a short description of the information expected to be reported. The PCAOB indicated that amending the form sufficiently addressed the expressed need for clarity regarding the information to be reported.

d. *Confidentiality & Conflicts* – As it relates to comments associated with confidentiality of cybersecurity incident reporting the PCAOB made the decision to:

i. *Reporting to Other Authorities Eliminated* – Eliminate the requirement for a firm to include whether it has reported an incident to other authorities despite the PCAOB's belief that there are not any known direct conflicts with other current obligations of audit firms, but, they have done so in an effort to avoid unintended consequences.

ii. *Revision to Form 3* – Revise Form 3, as proposed, to require the reporting of significant cybersecurity incidents within five business days on a confidential basis given the PCAOB has revised the definition/requirements as noted above. The PCAOB notes:

> ***We expect such confidential reports to include sufficient information for the PCAOB to understand the nature of the incident and whether regulatory follow-up is warranted****, including* ***a brief description of the nature and scope of the incident****;* ***when it was discovered*** *and* ***whether it is ongoing****;* ***whether any data was stolen, altered, accessed, or used for any unauthorized purpose****; the* ***determined effects of the incident on the firm's operations****; and* ***whether the firm has remediated or is currently remediating the incident****.*

Marked changes from the Proposed to Final Rule are as follows:

Part IX – SIGNIFICANT CYBERSECURITY INCIDENT REPORTING

Item 9.1

If there has been a cybersecurity incident, or related group of incidents, that have significantly disrupted or degraded the firm's ~~critical~~ operations~~, or are reasonably likely~~ critical to ~~lead to such a disruption or degradation~~the functioning of the audit practice; or those that have led~~, or are reasonably likely to lead,~~ to unauthorized access to the electronic information, communication, and computer systems (or similar systems) ("information systems") and networks of interconnected information systems of the firm in a way that has resulted in~~, or is reasonably likely to result in,~~ substantial harm to the firm's critical audit ~~firm or a third party, such as companies under audit or investors~~ related operations, indicate by checking this box and providing a brief description of the event. Such incidents or related group of incidents are deemed "significant cybersecurity incidents."

Note: The filing deadline for Item 9.1 item is five business days. For purposes of responding to Item 9.1, the five business days begins to run on the day the firm determines that the cybersecurity event is significant. This item is confidentially reported.

Note: We expect such confidential reports of significant cybersecurity incidents to include sufficient information for the PCAOB to understand the nature of the incident and whether regulatory follow-up is warranted, including a brief description of the nature and scope of the incident; when it was discovered and whether it is ongoing; whether any data was stolen, altered, accessed, or used for any unauthorized purpose; the determined effects of the incident on the firm's operations; whether the firm has remediated or is currently remediating the incident; and whether the firm has reported the incident to other authorities.

2) ***Cybersecurity Policies and Procedures*** – There were no substantive changes since the Proposed Rule. The disclosure of cybersecurity policies and procedures is the only information investors will receive.

CONSIDERATION OF DISSENTING PCAOB BOARD MEMBER VIEW THAT FIRM REPORTING FINAL RULE IS EXTREMISM IN THE NAME OF INVESTOR PROTECTION

OVERALL ASSESSMENT OF THE DISSENTING BOARD MEMBER'S STATEMENT

Important Context

As we considered the Dissenting Board Members statement – and some of the arguments made in opposition to the Proposed Rule as analysed by the PCAOB Staff in the Final Rule – we noted several elements of bigger picture context which were missing from the perspectives or arguments made. We addressed these, in the body of the letter to which this appendix is attached, at the section, "Additional Troubling Themes/Narratives Emerge in the Comments and Dissenting View". These are important items of context to the analysis of the Dissenting Board Member's statement which follows.

The Minor Changes in the Final Rule Negate the Extremism Narrative

We read with interest the views of the only PCAOB Board member[18] to dissent (the "PCAOB Dissenting Board Member" or "Dissenting Board Member") to the Firm Reporting Final Rule in her statement *Extremism in the Name of Investor Protection*.

The statement claims the Firm Reporting Final Rule is extremist with speculative benefits having no direct linkage to audit quality.

Overall, we find the objections in the statement a bit of a shotgun approach of criticisms to the Firm Reporting Final Rule that fail to recognize the bigger picture, which is that the PCAOB – because of the reductive nature of the changes between the Proposed Rule and the Final Rule – made few changes which create additional transparency to the PCAOB and very, very few changes which provide investors or audit committees with any additional information.

We outline the net result of those changes in our section "Overarching Observations on Changes from the Proposed to Final Rule" in the body of the letter and analyse them in detail in **Appendix A**.

Specifically, the Dissenting Board Member states at the outset of the statement:

> *I believe extremism errs on the side of excess whereas virtue calls for moderation. The **Firm Report adopting release makes it abundantly clear that the PCAOB believes extremism in the name of investor and audit committee protection is a virtue not a vice**.*

The assertion that the Final Rule is extreme in the name of investor protection is at odds with the net changes and the transparency to be provided to investors as a result of the Final Rule.

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[18] See PCAOB Board Member Ho's Statement of Dissent to Firm Reporting Final Rule at: Statement on the Firm Reporting Adopting Release – Extremism in the Name of Investor Protection | PCAOB

The Dissenting Board Member in her statement also calls for U.S. Congressional oversight of the PCAOB because of the PCAOB staff's indifference to commenters concerns.

> *First, by stating that the duplicative reporting requirement in this adopting release and in QC 1000 is "intentional" and not "overly burdensome" is inconsistent with what we say in the economic analysis as to how the PCAOB looks at cumulative costs and benefits. Second,* ***it demonstrates not just indifference to commenter concerns about the cumulative effects of PCAOB reporting requirements but contempt, sheer contempt for commenter concerns****. The unbridled contempt conveyed in this adopting release and the corresponding abuse of power convince me that the PCAOB, like most financial regulators, should be subject to congressional oversight because unchecked regulatory power is dangerous and harmful to the capital markets. Such congressional oversight should perhaps include the Congressional Review Act,* *which is a tool that Congress may use to overturn rules issued by federal agencies. While the PCAOB is not a federal agency, I believe that it could* ***serve as a helpful check on the PCAOB's regulatory overreach****.*

Review of the Final Rule – and the analysis of the comments received by the PCAOB staff as set forth in the Final Rule – combined with the net result of the Final Rule being very, very limited additional transparency to investors and audit committee members and limited additional disclosure to the PCAOB, makes this conclusion hyperbolic.

This call by a PCAOB Board Member for the politicization of the Board is remarkable and at odds with the historical call by investors to not involve Congress in accounting or auditing standard-setting as this rulemaking and standard-setting is meant to be non-partisan – a subject we address later.

We find the statement – which labels the Firm Reporting Final Rule as "extremist in the name of investor protection" and calls for the PCAOB to be overseen by Congress – creates a false and exaggerated narrative regarding the actual changes in the Final Rule and is an attempt to politicize the actions of the PCAOB for those who have not performed a detailed assessment of the changes brought about by the Final Rule. We include such assessment in **Appendix A** to this letter and provide the analysis of the Dissenting Board Member perspectives below, to bring greater balance to the discussion.

AUDIT COMMITTEES

Audit Committee Information Needs Are Outside the PCAOB's Mission

The Dissenting Board Member criticizes a statement made by the PCAOB staff in the Final Rule which states the following:

> *We continue to believe that* ***enhanced information regarding audit firms will support audit committees' abilities to efficiently and effectively compare firms in their appointment decisions and monitoring efforts, and investors' abilities to efficiently and effectively compare firms in their ratification decisions and monitoring efforts****, and in their capital allocation decisions. The required disclosures will also provide indirect benefits linked to audit quality.*

The Dissenting Board Member goes on to note the following as the PCAOB's mission:

> *The PCAOB's statutory mission under Title I of the Sarbanes-Oxley Act of 2002 (SOX)[19] is to:*
> *(1) protect the interests of investors; and*
> *(2) further the public interest in the preparation of informative, accurate, and independent audit reports.*

[19] 15 U.S.C. 7211(a) (https://www.law.cornell.edu/uscode/text/15/7211)

The Dissenting Board Member goes on to state:

- it is stunning that the Final Rule first mentions audit committees, then investors and then audit quality;
- the PCAOB's mission does not mention audit committees and the PCAOB has no statutory authority over audit committees; and
- the mandatory reporting requirements in the release will not be included in audit reports.

Because of this the Dissenting Board Member asserts the PCAOB is compromising its mission by expanding its reach to other areas such as audit committees.

The Dissenting Board Member's statement fails to recognize the role of corporate governance, and the legal responsibilities of audit committees related to public companies. Audit committee members are appointed by investors as their agents and investors ratify the auditor selection decision of audit committees. The PCAOB is not extending their reach to audit committees but facilitating the investors agency relationship with audit committees.

It is not clear why the Dissenting Board Member highlights the mandatory reporting requirement in the release will not be included in audit reports. This seems to be a red herring.

Ironically, many have asserted that investors in asking for greater transparency are attempting to circumvent the corporate governance responsibilities of the audit committee. In fact, we addressed this inaccurate criticism in our comment letter on the Firm and Engagement Metrics Proposal.

Here the Dissenting Board member is asserting the PCAOB should not support audit committees' abilities to efficiently and effectively compare firms in their appointment decisions and monitoring efforts. This is a stunning conclusion and one – as we describe in the discussion of surveys below – which justifies why investors support of the Proposed Rule should prevail.

Despite Not Within the PCAOB Mission,
Consider the Views of Audit Committees Because They Oppose the Firm Reporting Rule

What is more unusual regarding the dissent, is that while asserting that the PCAOB is not charged with expanding their reach to making audit committees effective for the benefit of investors, the Dissenting Board Member references – and calls for consideration of the feedback included within – two comment letters which she classifies as those of audit committee members.

In doing so, she appears to believe that the PCAOB should be considering the views of audit committees, while having just argued that considering the needs of audit committees is expanding the PCAOB's scope.

Still more inconsistent with the original assertion regarding audit committees being out of the PCAOB's scope, the Dissenting Board Member asks the General Counsel whether they have done additional outreach to the audit committee members surveyed by the Center for Audit Quality.

We would also note that neither of the comment letters the Dissenting Board Member cites come from "real audit committee members". In fact, no audit committee members responded

to the Firm Reporting Proposed Rule – as we highlight in the analysis of comment letters in the body of this letter.

It is important to consider with more prominence the origin of the audit committee letters the Dissenting Board Member cites in her dissent as follows:

- The first comment letter is from the Center for Audit Quality – advocates for the auditing profession, not from audit committee members or audit committees directly.
- The second letter is from an audit committee convening organization – Tapestry – not audit committee members directly.

As we describe in the next section, the Dissenting Board Member differentiates between "real investors" and "investor advocates", but she fails to make that distinction when considering the feedback from organizations which aren't from "real audit committee members".

The Dissenting Board Member asserts that the audit committee letters do not support the Firm Final Rule. We reviewed each letter, noting the following:

- The first comment letter is from the Center for Audit Quality – advocates for the auditing profession, not from audit committee members or audit committees directly. Review of the letter reveals:
  - The survey attached to the comment letter – the CAQ Audit Committee Survey – is focused principally on the Firm and Engagement Metrics Proposal not the Firm Reporting Proposal.
  - The are only two questions in the CAQ Audit Committee Survey related to the Firm Reporting Proposal as follows:
    - The first, cited by the Dissenting Board Member, where audit committee members were asked if the proposed firm reporting enhancements are useful to audit committee members and 63% say no. The survey does not ask respondents whether they are familiar with the proposed firm reporting requirements, nor which provisions they do not support. As such, one cannot assess respondents' understanding of the contents of the Proposed Rule and the provisions they oppose.
    - A question preceding that question in the CAQ Audit Committee Survey – one not cited by the Dissenting Board Member – asks whether audit committees use the PCAOB's registered firm website (i.e., where the firm reporting information is located) where 78% say they do not use it. This would indicate they do not understand the existing – nor proposed firm reporting requirements.
    - Interestingly, the CAQ's Investor survey[20] attached to the same letter indicates 80% of investors access the PCAOB's registered firm website and 60% find the Form 2 and Form 3 (firm reporting) information useful. We illustrate that disconnect in the next section.
    - What we find when looking at the CAQ Audit Committee Survey – when contrasted to the CAQ Investor Survey – is that audit committees should be looking at – but are not looking at – the registered firm website because the investors they are meant to be protect are reviewing the information.

[20] See Pages 7-19 for the CAQ Audit Committee Survey and Pages 20-38 for the CAQ Investor Survey at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

        - The lack of familiarity with the PCAOB's registered firm website by audit committee members in the CAQ survey makes it likely they would not find the information useful, nor that they would understand or find the Firm Reporting Proposal. But the investor survey finds the audit committees should be looking at the information to meet their responsibility to investors – as investors are reviewing the information.

- The second letter from Tapestry notes it relates to both the Firm and Engagement Metrics Proposal and Firm Reporting Proposal. However, review of the letter suggests:
    - The letter relates more to Firm and Engagement Metrics rather than Firm Reporting.
    - None of the disclosures related to firm reporting, governance, special reporting, or cybersecurity in the Firm Reporting Proposal are mentioned or commented upon in the letter.
    - The letter does not state how many views of audit committee members were obtained and only includes "selected comments."
    - The letter includes a comment that they do not hear investors asking for such information. This is not persuasive as investors do not ask audit committee members for additional information because they know they will not be provided with additional information that is not already in the public domain. This statement disqualifies the comments within the letter.

Overall, we challenge the assertion of the Dissenting Board Member that these comment letters should be relied upon as a robust rejection of the Proposed Rule – noting also that no audit committee members submitted a comment letter to the Proposed Rule.

Additionally, the Dissenting Board Member asserts that the CAQ Audit Committee Survey indicates audit committee members say they have access to most of the information that the proposals would mandate. This statement seems unlikely given that they can't receive US GAAP financial statements from the audit firms – a requirement of the Proposed Rule – as the firms assert, they do not have this information, and it would be too costly to prepare. If they also receive governance and network information and material event or cybersecurity reporting, then it would seem the objections by the audit firms in providing this information to at least the PCAOB would be overstated.

Despite Not Within the PCAOB Mission,
Consider the Views of Audit Committees in Disputing the Economic Analysis

The Dissenting Board Member then goes on to lean heavily on the audit committee survey done by the auditing profession – the CAQ Audit Committee Survey – to dismiss the economic analysis done by the PCAOB.

Again, it seems inconsistent for the Dissenting Board Member to indicate that the PCAOB should not consider the needs of audit committee members as it expands the PCAOB's remit beyond the bounds of the PCAOB's mission while at the same time using the audit profession's survey of audit committees – indicating the profession seems to think audit committees' views matter – to dismiss the PCAOB's economic analysis and rulemaking.

Overall

The Dissenting Board Member dismisses the PCAOB's statement regarding the usefulness of the Final Rule to audit committees – arguing that audit committees are outside the PCAOB's mandate – but then goes on to rely on surveys of audit committee members done by the auditing profession and a comment letter by audit committee advocates because she believes they demonstrate there is no support for the Final Rule. We challenge that conclusion and note no "real audit committee members" submitted letters opposing the Proposed Rule – indicating their opposition was not significant.

The Dissenting Board Member's objection to the Final Rule in this section of her statement is not only internally inconsistent but it misses the broader point that audit committees as well as investors will be provided with very little additional information as a result of the Final Rule – making the Dissenting Board Member's objection to the Final Rule rather moot in this regard.

INVESTORS

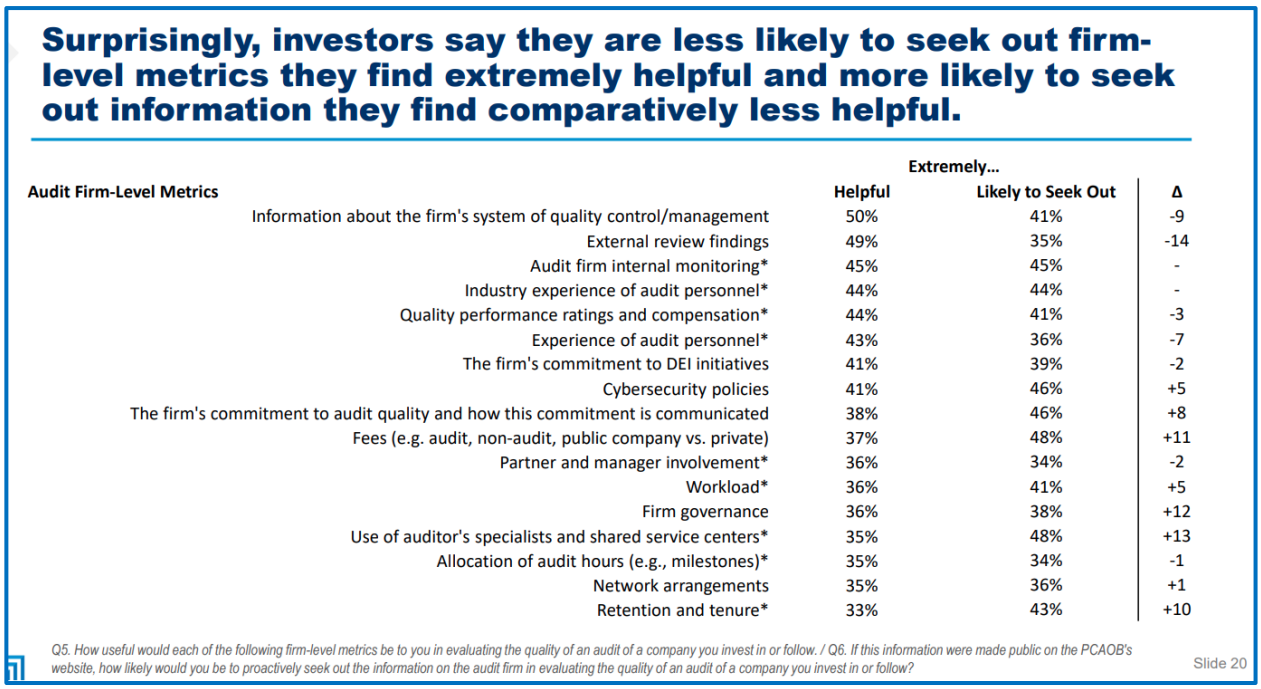
Leveraging a Survey of Investors by the Audit Profession to Indicate Investors Don't Support Firm Reporting Disclosures, When in Fact the Survey Shows High Conviction for the Disclosure of Such Information

After addressing audit committee members, the Dissenting Board Member addresses the views of investors, but does so by citing a survey of institutional investors done by the Center for Audit Quality (i.e., auditing profession advocates), rather than citing the support for the Firm Reporting Proposal from the investor comment letters received. Those letters are not referenced. Evidence in support of the Proposed Rule in such letters is ignored by the Dissenting Board Member – not addressed and rebutted, if perceived invalid.

The Dissenting Board Member references the chart presented below from the CAQ Investor Survey[21] highlighting investors views on whether certain firm level metrics would be "extremely helpful/useful" and whether they are "extremely likely to proactively seek out" the information.

The Dissenting Board Member argues that because only 35%, 37% and 50% of investors believe that information on firm networks, fees, and quality control would be "extremely helpful/useful" that this shows little support – and need for additional outreach – for the disclosure of such information as in the Firm Reporting Final Rule. The Dissenting Board Member also fails to highlight the 36% and 41% of investor respondents that would find firm governance and cybersecurity policies – both elements of the Firm Reporting Proposal – "extremely helpful/useful". The Dissenting Board Member asserts that these less than majority percentages indicate investors do not support the Proposed Rule. The Dissenting Board Member, however, fails to recognize the gradation of responses as "extremely."

[21] See Pages 20-38 for the CAQ Investor Survey at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08



Surprisingly, investors say they are less likely to seek out firm-level metrics they find extremely helpful and more likely to seek out information they find comparatively less helpful.

Audit Firm-Level Metrics	Extremely... Helpful	Likely to Seek Out	Δ
Information about the firm's system of quality control/management	50%	41%	-9
External review findings	49%	35%	-14
Audit firm internal monitoring*	45%	45%	-
Industry experience of audit personnel*	44%	44%	-
Quality performance ratings and compensation*	44%	41%	-3
Experience of audit personnel*	43%	36%	-7
The firm's commitment to DEI initiatives	41%	39%	-2
Cybersecurity policies	41%	46%	+5
The firm's commitment to audit quality and how this commitment is communicated	38%	46%	+8
Fees (e.g. audit, non-audit, public company vs. private)	37%	48%	+11
Partner and manager involvement*	36%	34%	-2
Workload*	36%	41%	+5
Firm governance	36%	38%	+12
Use of auditor's specialists and shared service centers*	35%	48%	+13
Allocation of audit hours (e.g., milestones)*	35%	34%	-1
Network arrangements	35%	36%	+1
Retention and tenure*	33%	43%	+10

Q5. How useful would each of the following firm-level metrics be to you in evaluating the quality of an audit of a company you invest in or follow. / Q6. If this information were made public on the PCAOB's website, how likely would you be to proactively seek out the information on the audit firm in evaluating the quality of an audit of a company you invest in or follow?

Slide 20

We would make the following observations regarding that same chart:

- While the CAQ Investor Survey appears more related to the Firm and Engagement Metrics Rule, rather than the Firm Reporting Rule, there are questions related to information which was being proposed to be disclosed in the Firm Reporting Rule.
- The CAQ comment letter only disclosed the "extremely helpful/useful" and the "extremely likely to proactively seek out" percentage of responses to the questions posed to investors.
- As one can tell from the questions included at the bottom of the chart, the questions asked: "How useful" and "how likely would you be to proactively seek out" the firm level information which was listed? This question would suggest that the responses provided for a gradation of responses (extremely helpful/useful, helpful/useful, neutral, not helpful/useful, extremely not helpful/useful). Yet only the "extremely helpful/useful" and "extremely likely to proactively seek out" responses are included in the survey results included in the comment letter. Other questions in the CAQ Investor Survey framed with similar language (e.g., Slide 24 and Slide 25) provide for a gradation of responses.
- Having conducted many surveys of investors over time, these are very high percentages for the category of "extremely helpful/useful" and the "extremely likely to proactively seek out." Such high response rates for the "extremely" gradation would suggest that the next gradation would also be quite high. The high numbers indicate investors have strong conviction in their views. With "extremely" response rates in the 30-40% it is very likely that all responses on the "helpful/useful" and the "likely to proactively seek out" spectrum of response are well over the majority – more likely in the 70-80% range of support.
- As such, the PCAOB Dissenting Board Member's conclusion that the CAQ Investor Survey is not supportive of investors finding such information "helpful/useful" and "likely to proactively seek out" is incorrect.
- Overall, the CAQ Investor Survey supports investors desire for, and use of, elements of information included in the Firm Reporting and Firm and Engagement Metrics Proposals – much of which has been scaled back in the final rules for each.
- Additionally, it should be noted that the conclusion at the top of the preceding chart regarding the relationship between the "extremely helpful/useful" and the "extremely

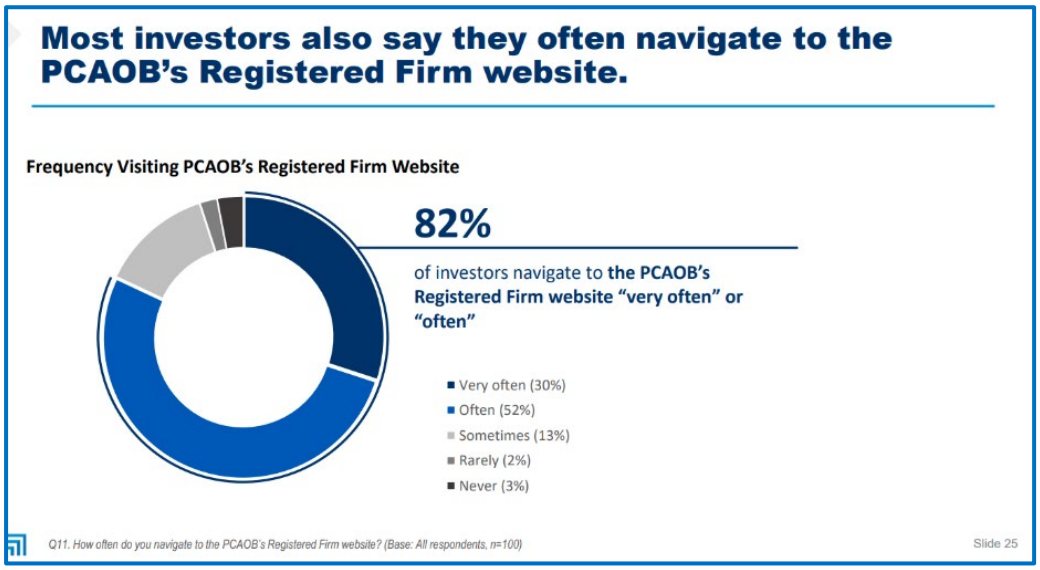
likely to proactively seek out" percentages is not the key message from the chart. The key takeaway is that these are very high rates of "extremely helpful/useful" and "extremely likely to proactively seek out." It does not seem unreasonable, in our view, for investors to say external review findings would be "extremely helpful/useful" (49%) while reducing their response rate (35%) for "extremely likely to proactively seek out" – because they know that information is not being provided. We would also note there is at least one math error in their gap analysis (e.g., firm governance).

In sum, the Dissenting Board Member uses this Center for Audit Quality (i.e., audit profession advocates) investor survey[22] to indicate investors do not support the disclosure of these various elements of information and that more outreach is needed when in fact the CAQ Investor Survey shows high conviction that investors want this information, which is supported by the comment letters which were received from investors by the PCAOB. Such letters are not cited by the Dissenting Board Member.

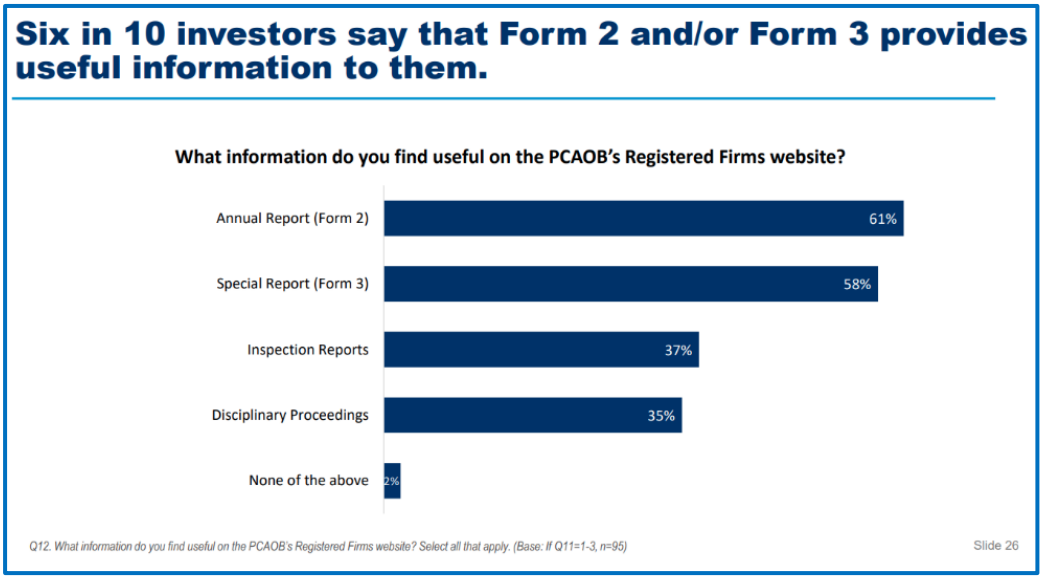
Overall, the audit profession has confirmed and validated CFA Institute's long held, and advocated for, views on greater audit firm transparency.

The Same Survey Shows 82% of Investors Access the PCAOB Registered Firm Website and that 60% Indicate Form 2 and Form 3 (Firm Reporting) Information:

Additionally, having drawn our attention to the CAQ Investor Survey we note the following two charts from the survey which highlight that 82% of investors surveyed navigate the PCAOB's Registered Firms website and that 61% believe Form 2 and Form 3 provide useful information – and this is before the proposed revisions in the Firm Reporting Proposal or Final Rules.

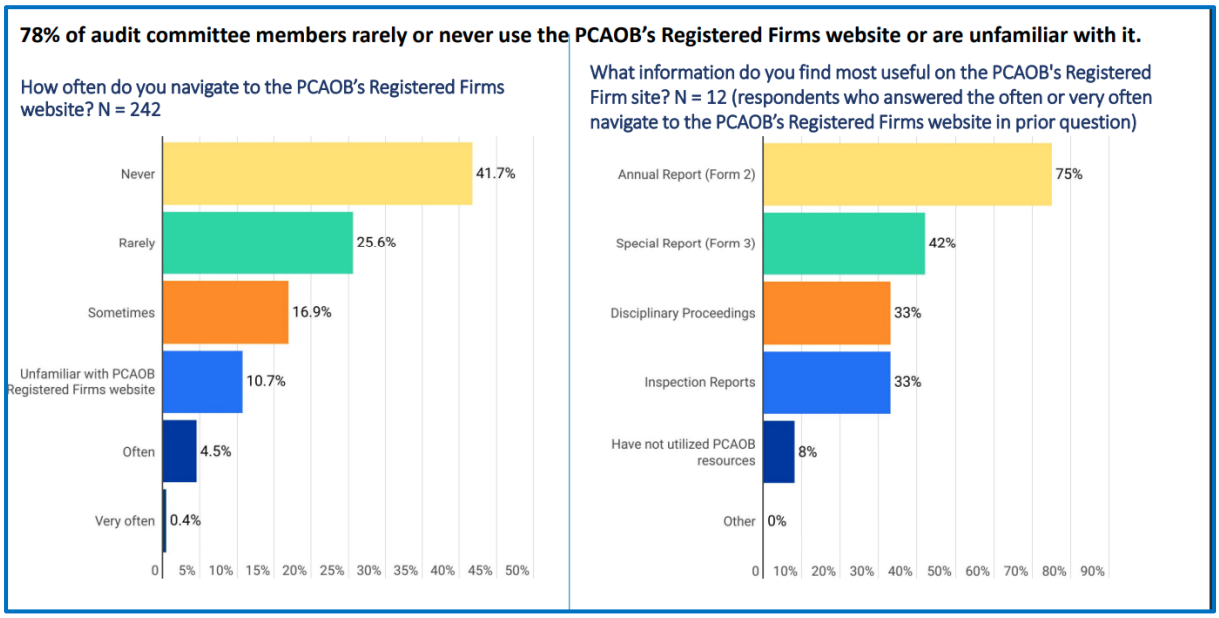


[22] See Center for Audit Quality Letter at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08



Audit Committee Members Need to Get Up-To-Speed with Investor Needs

Interestingly, the survey of audit committee members in the same comment letter[23] suggests they rarely use the PCAOB registered firm website and/or they are unfamiliar with it and the information on Form 2 and Form 3.



When contrasting these audit committee responses to those of investors, what we conclude is that audit committee members surveyed are not familiar with or reviewing the information investors surveyed find to be useful – and that audit committee members likely need to become as familiar with the information as are the investors they are appointed to serve.

[23] See Pages 7-19 for the CAQ Audit Committee Survey at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

AUDIT QUALITY

Firm Reporting Requirements Should Not Be Adopted as They Do Not Have a Clear and Direct Link to Audit Quality

The Dissenting Board Member states about the Proposed Firm Reporting Rule that:

> *The proposal contains a significant expansion of reporting requirements, except [here] there is* ***not clear and direct linkages between the proposed new reporting requirements and audit quality****.*

The Dissenting Board Member does not provide a definition of audit quality nor set forth a description of what constitutes a direct linkage to audit quality. The Dissenting Board Member also does not explain how her stated requirement – of a direct link to audit quality – is a requirement consistent with the PCAOB's mission which is provided in a preceding section of the dissent as:

> *The PCAOB's statutory mission under Title I of the Sarbanes-Oxley Act of 2002 (SOX)[24] is to:*
> *(1) protect the interests of investors; and*
> *(2) further the public interest in the preparation of informative, accurate, and independent audit reports.*

The Dissenting Board Member establishes no basis of justification for how the firm reporting requirements in the Final Rule do not meet the PCAOB's mission of investor protection.

The Dissenting Board Member asserts that the firm reporting requirements must meet an undefined direct link to an unarticulated definition of audit quality to be within the PCAOB's mission – which is to protect the interests of investors and the public interest.

These references to audit quality by the Dissenting Board Member also fail to recognize that the PCAOB relabelled the metrics within the Firm and Engagement Metrics Final Rule from "audit quality indicators" to "firm and engagement performance metrics" because there is no consensus on the definition of audit quality.

With an unarticulated definition of audit quality and an unspecified "direct link" to the unarticulated definition of audit quality, adding this requirement as a condition or threshold to enhancing the transparency of the audit – a credence good, where virtually nothing is transparent – will only result in that transparency never being achieved – because the condition or threshold is illusive.

The Bigger Picture Link to Investor Protection is Missing from the Dissent: Investor Protection Not Audit Quality Per Se is the PCAOB's Mission

The dissenting view implies – through the requirement that there be a "direct link to audit quality" – that audit quality and transparency are based solely upon the tactical elements of individual audits rather than the more strategic and overarching elements of audit firm management which guide firm leadership behaviours, a firm's ability to withstand financial stress, or address significant risks such as cyber threats (i.e., which may reveal the massive aggregation of data the firms hold of America's largest corporations).

To investors – trained in corporate governance and financial analysis – these Firm Reporting requirements – which are far, far less than public companies – are obvious basic elements of good governance, risk management and transparency. Investors spend significant amounts of time assessing the quality of an investee companies' corporate governance, its financial

[24] 15 U.S.C. 7211(a) (https://www.law.cornell.edu/uscode/text/15/7211)

wherewithal and its risk management, including cyber risk management because they understand that how the organization is operated and governed more broadly impacts the quality of the products or services provided and the returns to investors.

These proposed firm reporting disclosures related to firm financial information, governance information, network relationship information and special reporting of material events are modelled after similar requirements for public companies – despite being far less in their breadth and depth – because investors have long established that such information is important to the effective operation of the organization and to protecting their interest in the organization.

It is so obvious to investors that these firm reporting requirements provide basic value relevant information in the selection and retention of the auditor and in the regulatory oversight of the auditor that its puzzling for investors to understand how the audit firms could oppose them being provided to investors (i.e., their clients) and assert they are not within the PCAOB's investor protection mandate.

As we note elsewhere in this letter, investors look at audits as insurance against financial malfeasance in the companies in which they invest. As such, why would investors want less information from the auditors providing such assurance than from the companies in which they invest?

In our comment letter on the Firm and Engagement Reporting Metrics Proposal we provide an extensive discussion with illustrations regarding how little information investors, the ultimate client, have to perform their stewardship function regarding the appointment of audit committee members and the auditor ratification decision.

We would reframe the Dissenting Board Member's statement that there needs to be a "direct link to audit quality" to their needs to be a "direct link to investor stewardship and investor protection". Reframing the paradigm at which one looks at the information changes the conclusions one will obtain in concluding its needed for investor protection. The PCAOB's mission is not defined as "audit quality" but of "investor protection."

Audit Committees and Investors Will Not Use the Information

The Dissenting Board Member states she believes it is fanciful to believe that audit committees and real investors will use the information in the Final Rule. As we have articulated above, it is not fanciful to believe investors will analyse the financial or corporate governance information for a key supplier of audit services when making their audit committee or auditor ratification votes. It is central to their stewardship responsibilities and analysing such information is their core competency in making investment decisions.

The Dissenting Board Member cites the CAQ Audit Committee Survey[25] supporting her assertion that the information will not be useful, but as we highlight in the Investors section above – and in the section within the body of the letter entitled: "Through Survey of Investors, Audit Profession Advocates Find That: Investors Often Navigate the PCAOB's Registered Firm Website, Investors Find Forms 2 and 3 Provide Useful Information, and Investors Have High Conviction on Disclosure Elements Being Extremely Helpful and Extremely Likely for Them to Seek Out" – the Dissenting Board Member does not highlight

[25] See Pages 7-19 for the CAQ Audit Committee Survey at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

that in the CAQ Investor Survey[26] the survey shows investors do use the Registered Firm Website and find the Form 2 and Form 3 information useful.

There we also highlight that the Dissenting Board Member has misinterpreted the high conviction by investors who believe firm reporting metrics will be "extremely useful" and are "extremely like to seek out" such information. As we address above, a comparison of the CAQ Audit Committee Survey and the CAQ Investor Survey results suggests that the end client – the investor – finds the information interesting and useful and that the audit committee members likely are laggards in appreciating that perspective.

Investors vs. Investor Advocates: Auditors vs. Auditor Advocates, Audit Committee Members vs. Audit Committee Advocates and Preparers vs. Preparer Advocates

Investors vs. Investor Advocates

The Dissenting Board Member makes a distinction between "investor advocates" and "real investors" when saying:

> *First, **the reference to "investor-related groups" pertains to investor-advocates** and **not real investors**, like the institutional investors surveyed.*

The Dissenting Board Member continues by saying that the economic analysis staff should rely on the "real institutional investors" in the survey done by the audit profession advocates (CAQ Investor Survey) as discussed above. We address the actual findings, in contrast to the asserted findings, from the survey in the section of the body of the letter noted previously.

This parsing or segregation of investors is generally done by those who seek to discount the views of those representing investors – those who have the capability to speak auditing standards and speak investor and respond in a manner which is technically proficient to the PCAOB.

Interestingly, the Dissenting Board Member fails to recognize that she is requesting that the PCAOB rely on a survey of investors done by auditor advocates, not real auditors. As such, should those findings be discounted? Suggesting that such a survey of investors done by the Center for Audit Quality is more reliable than the views of investor organizations such as CFA Institute who has heavily surveyed our nearly 200,000 investor members in developing their positions, the Council of Institutional Investors, or the PCAOB's own Investor Advisory Group is puzzling.

What is ironic is that the Dissenting Board Member tells the PCAOB economic analysis staff to rely on this survey of "real institutional investors" without recognizing that the survey she references indicates that 80% of investors access the PCAOB's Registered Firm Website and that 60% find the information on Forms 2 and Form 3 useful. We also note above the misinterpretation of the information in that same survey which shows the high percentage of investors with strong conviction that the information proposed by the PCAOB would be "extremely useful" and that they are "extremely likely to seek out" the information.

[26] See Pages 20-38 of the Center for Audit Quality Letter at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

Audit Committee Members vs. Audit Committee Advocates
After seeking to diminish the views of investor advocates in favour of auditor advocates the Dissenting Board Member also states that the PCAOB should rely on the survey of audit committee members done by the Center for Audit Quality (i.e. auditor advocates not real audit committee members) and the comment letter of audit committee advocacy organizations such as Tapestry. We address those letters above in the Audit Committee section of this appendix. We would note that the Dissenting Board Member does not make the distinction that these letters are from conveners of audit committee members and audit committee advocates and not "real audit committee members."

Additionally, the Dissenting Board Member asserts that audit committee advocates such as Tapestry were wholly unsupportive of the Firm Reporting Proposal. Review of the letter suggests the letter was more focused on the Firm and Engagement Metrics Proposal than the Firm Reporting Proposal and that it is not clear that the letter includes more than selected anecdotal comments. We address that letter in the Audit Committee section above.

What the Dissenting Board Member fails to recognize is that no real audit committee members filed a comment letter opposing this Firm Reporting Proposed Rule. Additionally, no companies subject to audit (public company issuers) filed a comment letter objecting to the Proposed Rule. Real audit committee members and real public companies did file comment letters on the NOCLAR proposal. As such, it's fair to conclude they were not significantly opposed to the Proposed Rule.

Making the Distinction Between "Real" and "Advocates" Across Stakeholder Groups
We believe the PCAOB, and its board members must not make the distinction between "real investors" and "investor advocates" if there is not a similar distinction made for other stakeholders such as audit committees, auditors, and issuers.

We think it is important to note that organizations such as the CAQ and AICPA are not "real auditors" but "auditor advocates"; organizations such as Tapestry are not "real audit committee members" but "audit committee advocates"; and the Chamber of Commerce is not representative of "real issuers" or "real audit firms" but they are "issuer advocates" or "audit firm advocates". Further, we would note if investors were going to be segregated between "real investors" and "investor advocates" that the PCAOB may need to discern who is a "real auditor" when a non-trivial percentage of the audit firm's chief auditors and those participating on the PCAOB SEIAG representing the audit firms are not listed, or are not listed in the recent past, in the Auditor Search Database. Meaning they have not completed a public company audit since the inception of the Form AP requirements in 2016.

CUMULATIVE EFFECT OF REPORTING REQUIREMENTS

Minor Illustrations of Duplicative Reporting
The Dissenting Board Member notes the PCAOB has not considered the cumulative effects of its reporting requirements by highlighting, for example, minor duplications such as the naming a firm's principal executive officer in three reporting locations and related to Form QC.

The duplicative reporting requirements are minor and actually make the information more accessible and complete for users of the information. User should not have to access relevant pieces of information in multiple locations.

More importantly, such a vociferous objection seems unwarranted by such a minor illustration of cumulative or duplicative reporting. We would have expected a more compelling list of cumulative or duplicative reporting excesses.

Congressional Oversight of PCAOB

The Dissenting Board Member, in this section of the dissent and related to such minor duplications calls for Congressional oversight of the PCAOB for its "abuse of power" as articulated below:

> *First,* ***by stating that the duplicative reporting requirement in this adopting release and in QC 1000 is "intentional" and not "overly burdensome" is inconsistent with what we say in the economic analysis*** *as to how the PCAOB looks at cumulative costs and benefits.*
>
> *Second,* ***it demonstrates not just indifference to commenter concerns about the cumulative effects of PCAOB reporting requirements but contempt, sheer contempt for commenter concerns.***
>
> ***The unbridled contempt conveyed in this adopting release and the corresponding abuse of power convince me that the PCAOB, like most financial regulators, should be subject to congressional oversight because unchecked regulatory power is dangerous and harmful to the capital markets.***
>
> *Such* ***congressional oversight should perhaps include the Congressional Review Act, which is a tool that Congress may use to overturn rules issued by federal agencies.***
>
> *While the PCAOB is not a federal agency, I believe that it could serve as a helpful check on the PCAOB's regulatory overreach.*

This is a remarkable statement for several reasons:

- It stems from the explanation of the PCAOB staff that the minor duplications are not overly burdensome and intentionally duplicative.
- Review of the Final Rule suggests the PCAOB staff have considered commenters' views.
- The Final Rule has been – as we highlight in the body of the letter and **Appendix A** – substantially reduced from the Proposed Rule and the resulting transparency to investors is very, very minimal.
- This seems an extreme reaction to the "infractions" cited.
- This is a clear politicization of the PCAOB – something the Dissenting Board Member has said she opposes.

Investor organizations such as CFA Institute and the Council of Institutional Investors – who has a written policy against the politicization of accounting and auditing standard setting – have long opposed the intervention of Congress and politics in accounting and auditing standard-setting. CFA Institute in advocating for the recognition of pension obligations as liabilities in the 1980s; the expensing of stock-based compensation in the 1990s; the measurement of financial instruments at fair value in the 1990s and in the aftermath of the 2009 financial crisis; and the recognition of lease obligations in the 2010s; saw Congress attempt to get involved and sway the decision-making. In each of these instances CFA Institute discussed the issues with members of Congress and urged that they not become involved as we want such standard setting to be evidenced-based – rather than a politics-based process.

In a 2008 comment letter to the SEC related to the politicization of the fair value accounting for investments during the financial crisis, the Council of Institutional Investors attached their policy, Other Governance Issues: Independence of Accounting and Auditing Standard Setters, noting:

Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. ***The efficiency of global markets—and the wellbeing of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures.*** *The quality, comparability and reliability of that information, in turn, depends directly on the quality of the financial reporting standards that: (1) enterprises use to recognize, measure and report their economic activities and events; and (2) auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions. The result should be timely, transparent and understandable financial reports.*

The Council has consistently supported the view that the responsibility to promulgate accounting and auditing standards should reside with independent private sector organizations.

We have never heard another accounting or auditing standard setting board member ever suggest that involving Congress in their standard-setting process would be a good idea. In doing so, it endangers the credibility and independence of the board on which they serve, and the actual and perceived independence evidenced based their decision-making in the interest of investors and the public interest.

As we note above, this suggestion from the Dissenting Board member appears to be an extreme response to such modest rulemaking and made without a compelling argument articulating why the rulemaking is not useful for investors and the PCAOB.

OTHER

Questions for the General Counsel (Mr. Cappoli) and Chief Economist (Mr. Schmalz)

The Dissenting Board Member poses several questions to the PCAOB's General Counsel (Mr. Cappoli) and Chief Economist (Mr. Schmalz) – attempting to challenge the conclusions reached in the Final Rule.

General Counsel (Mr. Cappoli) – The Dissenting Board Member provides four questions to the General Counsel. They include the following:

1. *Days to Create Rule* – The Dissenting Board Member queries whether the General Counsel knows how long the 2008 rulemaking which created the Form 2 and Form 3 reporting took and then goes on to provide the answer implying that the 749 days for that rulemaking was more appropriate than the 226 days for this Firm Reporting Final Rule and implying the number of comment letters in this rulemaking (37) versus in the 2008 rulemaking (12) should require more time. In the body of the letter to which this Appendix relates we address in the section "Respondents to the Proposed Rule" that the 37 letters and 370-380 pages of commentary related to the Proposed Rule are not an extremely large number of comment letters nor pages for the PCAOB to consider and the Final Rule analyzes the comment letters.

   What the Dissenting Board Member does not explain is why more time is needed and exactly what additional evidence is required.

   The comparison not provided by the Dissenting Board Member is that the SOX Act of 2002 was created in less than six months and that Board members were appointed within 90 days of the passage of the law. In total, nine months or 270 days was required for the entire SOX Act. That legislation was far more expansive than this firm reporting transparency rulemaking.

2. *Additional Investor Outreach* – The Dissenting Board Member queries whether follow-up outreach to the institutional investors in the CAQ Investor Survey[27] mentioned above was completed. As we analyze the survey above – and below – we find that the survey shows the importance and usefulness to investors of information on the Firm Reporting website (Slide 25), Forms 2 and 3 (Slide 26), Form AP Audit Search Website (Slide 24) and Firm Level Metrics (Slide 20).

   We would also note that the Dissenting Board member doesn't call for additional outreach to the members of its own Investor Advisory Group, the Council of Institutional Investors, or CFA Institute who support the proposal. There was no outreach to CFA Institute by the Dissenting Board Member on this Proposal or the Firm and Engagement Metrics Proposal where we could have addressed the elements of this dissent and the aforementioned survey.

3. *Audit Committee Follow-up Outreach* – The Dissenting Board Member queries whether additional follow-up outreach to audit committee members in the CAQ Audit Committee Survey[28] (i.e., and survey done by advocates for the audit profession) mentioned above was performed.

   As we note above in the section on Audit Committees, it seems wholly inconsistent for the Dissenting Board Member to request the PCAOB perform additional outreach to audit committee members while simultaneously arguing that the PCAOB should not be considering the usefulness of the information to audit committees because doing so is an expansion of the PCAOB's mandate.

   Additionally, we note that only one audit committee advocate responded to the consultation on the Proposed Rule and that no audit committee members responded to the Proposed Rule objecting to the disclosures (i.e., which was not the case with NOCLAR). What one can reasonably conclude given their objection to NOCLAR is that they have no significant opposition to the Firm Reporting Proposal.

4. *Cybersecurity Reporting* – The PCAOB Dissenting Board Member queries why the firms subject to material event reporting was narrowed to those firms subject to annual inspections but such a similar narrowing was not made for cybersecurity reporting. Given the severity of potential cybersecurity incidents, it seems obvious that all firms would be subject to the rule and the timing would be shorter.

Chief Economist (Mr. Schmalz) – The Dissenting Board Member queries only one issue to the Chief Economist.

1. *Use of Form AP by Equity Investors* – That question being whether Form AP provides useful information to equity markets other than related to restatements.

We can unequivocally respond yes to that question. Form AP provides useful information to investors and equity markets. For example, upon the press release of SEC's fine of Marcum related to quality deficiencies on SPAC audits, CFA Institute released the information it had gathered in the preceding year regarding the concentration of SPAC audits amongst a few

[27] See Pages 20-38 of the Center for Audit Quality Letter at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

[28] See Pages 7-19 of the Center for Audit Quality Letter at: caq_supplemental comment letter to pcaob_firm and engagement metrics_survey data_2024-08

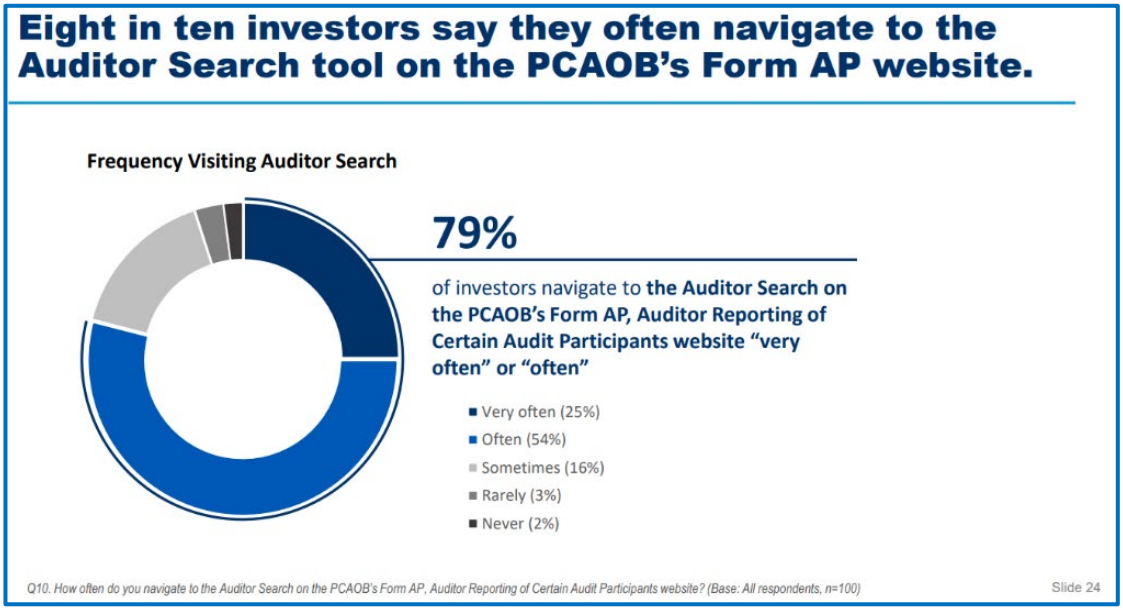
Marcum and Withum partners. See our related blog where we highlight our use of Form AP data: *SPAC Audits: SEC Fines Marcum for Quality Control Deficiencies | CFA Institute Market Integrity Insights*

While others in the press focused on the concentration of SPAC audits within these firms, we focused on the concentration of such audits amongst a few audit partners within those firms. In the year prior, we had gathered this information and shared with interested investors and others. Concentration of audit partner work impacts audit quality – as the Firm and Engagements Final Rule would suggest – and we predicted what the SEC and PCAOB found.

We also have published documents in 2018, *New Public Company Auditor Disclosures: Who Audits the Company You Invest In? How Long Have They Been the Auditor*? and 2023, *The Audit Gender Gap: Has It Narrowed?*, using the Form AP data and the data resulting from the disclosure of auditor tenure in audit opinions to highlight auditor tenure and gender diversity issues.

Finally, during the 2023 banking kerfuffle we know Form AP was used by investors and others to identify the audit partners responsible for the audits for such institutions– including when using that information to identify that the former audit partner on Signature Bank had become the chief risk officer at the bank just months after signing the audit opinion as the engagement partner at KPMG.

We would also note that the Center for Audit Quality investor survey that the Dissenting Board Member cites in the aforementioned section on investors includes a question regarding investor use of Form AP. The audit profession itself finds investors use the Form AP website.



Midnight Rulemaking

The Dissenting Board Member asserts that the Firm Reporting Proposal and Final Rule are "midnight rulemaking" stating:

> *But that would have taken time, and* ***the PCAOB has decided to rush this midnight rule before it was ready so that it could have another notch in its belt, never mind the fact that the required disclosures will not directly improve audit quality****.*

The introductory section in the body of this letter was included to highlight that the transparency provisions in the Proposed and Final Rule date back to at least 2008 and the Final ACAP Report. The assertion that this is midnight rulemaking is more a political tactic to delay the rulemaking with the hope the PCAOB will be politicized, there will be a change in Board members, and the rule will be further delayed.