

April 29, 2025

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

The Honorable Tim Scott
Chairman
Senate Committee on Banking, Housing, and Urban Affairs
104 Hart Senate Office Building
Washington, DC 20510

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

The Honorable Elizabeth Warren
Ranking Member
Senate Committee on Banking, Housing, and Urban Affairs
311 Hart Senate Office Building
Washington, DC 20510

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

Dear Congressman Hill, Senator Scott, Congresswoman Waters, and Senator Warren:

We are writing to express our grave concern with respect to the inclusion of [Section 50002 \(Public Company Accounting Oversight Board\)](#) in the House Committee on Financial Services Committee Print, *Providing for Reconciliation Pursuant to H. Con. Res. 14, Establishing the Congressional Budget for the United States Government for Fiscal Year 2025 Setting Forth the Appropriate Budgetary Levels for Fiscal Years 2026 Through 2034* (the Reconciliation Bill).

CFA Institute¹ is a global, not-for-profit professional association of more than 200,000 members and 160 member societies around the world. Members include investment analysts, financial advisers, portfolio managers, and other investment professionals. Founded in 1947, we have a long history of promoting fair and transparent capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals is ensuring that audited financial statements and other corporate disclosures are of high quality.

Our Concern: The Elimination of Audit Oversight

Section 50002 of the Reconciliation Bill eliminates the funding for the Public Company Accounting Oversight Board (PCAOB) in an alleged attempt to reduce the deficit. Yet the PCAOB is funded via a fee remitted by issuers of securities traded on US exchanges and ultimately paid for by investors in those securities. The bill also transfers the responsibilities of the PCAOB under the Sarbanes-Oxley Act (SOX Act) to the Securities and Exchange Commission (SEC) without ensuring any increase in funding or staff at the SEC to fulfill these responsibilities. ***In substance, the oversight of auditors would be eliminated because the SEC has not been provided any funding and does not have the skills, capacity, global inspection agreements – and potentially the authority under its remit – to take on the PCAOB’s responsibilities, which include inspections of public company audits.***

¹ For more information about CFA Institute, please see www.cfainstitute.org.

Objective Not Met: Provision is Not Deficit Reducing

The stated policy objective of the Reconciliation Bill, and this provision specifically, is to reduce the budget deficit. This is a contrivance of the bill sponsors and a false narrative as both the PCAOB and SEC are deficit neutral.

Section 50002 does not achieve deficit reduction because it reduces revenue by eliminating the funding for the PCAOB under Section 109(d) of the SOX Act while purportedly transferring the responsibilities, and expense, of the PCAOB to the SEC. This would, in fact, increase the deficit or require the SEC to increase transaction fees to fund the PCAOB's responsibilities because the SEC, like the PCAOB, is deficit neutral. In either case, this provision of the Reconciliation Bill does not reduce the deficit.

The Reconciliation Bill indicates the PCAOB's unspent and unobligated fees should be transferred to the general fund of the Treasury. It appears challengeable that Congress has the legal authority to require the transfer of funds from an independent not-for-profit such as the PCAOB – collected for its purposes as stated in the SOX Act – to the Treasury. These fees were collected from public companies for their stated purpose and if not used for that purpose should be refunded to the companies that paid them, not transferred to Treasury. Section 109(c)(1) of the SOX Act specifically states the monies collected under this provision of the SOX Act are not public monies of the U.S. Government.

We would welcome a discussion to explain in greater detail our analysis regarding why this provision is not deficit-reducing – and hence should not be included in the Reconciliation Bill.

Remembering Why the PCAOB Was Created

The PCAOB was established by the SOX Act, which President Bush signed into law in 2002 after it received overwhelming bipartisan support in Congress in response to the bankruptcies of Enron and WorldCom, which rocked the financial markets, destroyed tens of thousands of jobs, and decimated the retirement savings of millions of Americans.²

Recognizing that weak auditing standards, a lack of auditor independence, and lax, underfunded oversight of audit firms were key root causes of the crisis, Congress included as its centerpiece in the SOX Act the establishment of the PCAOB, an independent board to set audit standards, register audit firms, inspect audits of public companies, and bring enforcement actions for violations.

At the Sarbanes-Oxley signing ceremony, President Bush said: *“This law says to corporate accountants: the high standards of your profession will be enforced without exception; the auditors will be audited; the accountants will be held to account.”*³

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

³ [President Bush Signs Corporate Corruption Bill.](#)

Similarly, then Commissioner and now Chairman of the SEC Paul Atkins said in 2005: “*We all know that the Sarbanes-Oxley Act created the PCAOB because of deep failings in the U.S. accounting profession's ability to regulate itself. During and prior to the Enron-era, the accounting profession fell down on the job and got what it deserved in the Act.*”⁴

There is no evidence to suggest that the PCAOB isn't working well or that the accounting profession has gained the ability to regulate itself effectively.

The historical record and comparisons of audit quality in the US to foreign jurisdictions show the opposite. Since the PCAOB's creation, there has, fortunately, not been a repeat of failures of companies such as Enron and audit firms such as Arthur Andersen, while the same cannot be said in many foreign jurisdictions that lack independent oversight of auditors and suffer from lower audit quality as a result. In other markets, audit failures have persisted, including: Autonomy (UK), Toshiba (Japan), Steinhoff (South Africa), Carillion (UK), Luckin Coffee (China), NMC Health (UAE), Wirecard (Germany), and Evergrande (China) – to name a few.

Impact on Quality of Financial Reporting, Capital Markets and Capital Formation

Bill sponsors are proposing this radical step without any consideration of the potential impact on auditor oversight, market integrity, investor protection, or capital formation – a stated objective of this administration.

If adopted, this provision would have a devastating impact on the accuracy and reliability of financial reporting on which investor protection and the health and integrity of our capital markets rely. This is not a theoretical but rather a realistic concern as the Enron and WorldCom scandals in the US and litany of recent scandals outside the US, highlighted above, illustrate.

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

Lack of Consideration of the Potential Impact of the Bill

Further, sponsors of this provision of the Reconciliation Bill do not appear to have given any consideration to critical matters which will impact the ability of the SEC to effectively and efficiently assume the responsibilities of the PCAOB to ensure the integrity and continuity of the important functions of the SOX Act. These include, for example:

- How IT systems and data will be transferred from the PCAOB to the SEC;
- Whether sensitive information transferred would be subject to Freedom of Information Act (FOIA) requests;
- Whether, how, and how quickly many of the agreements with foreign securities regulators for inspections of foreign audit firms would or could be renegotiated and recreated;

⁴ [Statement Before the Open Meeting Regarding PCAOB and FASB Budget Review](#)



- What the cost of the transition would be;
- The process by which audit standard setting would be accomplished;
- What additional funding and staffing the SEC would need going forward to carry out these functions; or
- The impact any transfer would have on the on continuity and quality of inspections.

Moreover, certain functions currently carried out by the PCAOB – most notably inspections of foreign audit firms that audit companies listed in the United States – arguably could not be provided through the SEC. In particular, the progress made under the Holding Foreign Companies Accountable Act (HFCAA) to inspect the audits of Chinese companies is all but certain to be lost if this measure is adopted, since the Statement of Protocol between the PCAOB and Chinese securities regulators that enables such inspections would have to be renegotiated. It seems highly unlikely that China would permit U.S. government employees the access needed to conduct audit inspections.

In short, investors support an independent, apolitical, well-funded audit regulator to ensure trust by investors in the market.

Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you or your staff to provide more detail underpinning our perspectives.

Sincerely,

A handwritten signature in black ink, appearing to read "Margaret Franklin".

Margaret E. Franklin, CFA
CEO and President
CFA Institute

A handwritten signature in black ink, appearing to read "Sandra J. Peters".

Sandra J. Peters, CPA, CFA
Senior Head, Global Financial Reporting Policy
CFA Institute