

Sent via e-mail and hand delivery.

June 16, 2025

The Honorable John Thune  
Senate Majority Leader

The Honorable Charles Schumer  
Senate Minority Leader

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

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

The Honorable Lindsey Graham  
Chairman  
Senate Budget Committee

The Honorable Jeff Merkley  
Ranking Member  
Senate Budget Committee

**RE: H.R. 1 (“One Big Beautiful Bill Act”)<sup>1</sup>  
House Section 50002 (Public Company Accounting Oversight Board) and  
Senate Section 30005 (Transfer of Public Company Accounting Oversight Board)**

Dear Senators:

Prior to the House Committee on Financial Services markup, we<sup>2</sup> [wrote to them expressing our grave concern](#) with respect to the inclusion of [Section 50002 \(Public Company Accounting Oversight Board\)](#) in the Reconciliation Bill (“Reconciliation Bill” or “Bill”)<sup>3</sup>. This provision “transfers” the auditor oversight activities of the Public Company Accounting Oversight Board (“PCAOB”) created under the [Sarbanes-Oxley Act of 2002](#)<sup>4</sup> (SOX Act) to the Securities and Exchange Commission (“SEC”) using a contrivance that such a transfer reduces the Federal deficit.

Recently, the Senate Committee on Banking, Housing, and Urban Affairs has [released](#) its proposed [legislative text to Section 30005](#) (Transfer of the Public Company Accounting Oversight Board). We refer herein to Section 50002 and 30005, collectively, as the Provisions.

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<sup>1</sup> 119<sup>th</sup> Congress [H.R. 1 – One Big Beautiful Bill Act](#). An act to provide for reconciliation pursuant to Title II of the H. Con. Res. 14. Referred to herein as the “Reconciliation Bill”. See Page 440 through 443 for Section 50002 which is the subject of this letter.

<sup>2</sup> CFA Institute 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.

<sup>3</sup> See note 1.

<sup>4</sup> See SOX Act at: [STATUTE-116-Pg745.pdf](#)

## WHAT WE ARE SEEKING AND WHY

We are writing to the Senate leadership seeking the removal of these Provisions of the Reconciliation Bill as:

- 1) These Provisions are not deficit-reducing ([Appendix A](#)<sup>5</sup>).
- 2) The inclusion of these Provisions violates the Byrd Rule ([Appendix B](#)<sup>6</sup>).

In **Appendix A** and **Appendix B** (the “Appendices”) we detail and analyze how we reach these conclusions. We summarize the findings from these Appendices in the body of this letter, after explaining the importance of the PCAOB to investor protection and capital formation – and our concern regarding the effective elimination of the PCAOB.

## IMPORTANCE OF THE PCAOB TO INVESTOR PROTECTION & CAPITAL FORMATION

### *A Refresher Regarding Audit Oversight Prior to the PCAOB*

In January 2002 – amidst the Enron and WorldCom crisis – the auditing profession sought to impede a call for greater regulation of the auditing profession and retain self-regulation. What was then the oversight body of the audit profession – the Public Oversight Board (“POB”) – voted to terminate its own existence because of the conduct of the audit profession, with the assistance of the SEC, in pursuit of retaining self-regulation.

After being stonewalled in its investigation of independence violations, underfunded and undermined by the auditing profession, the members of the POB made a decision to terminate their existence noting:

*Over the past two years, the POB has faced increasing obstacles that have impeded its ability to carry out its oversight functions. As a consequence, the POB feels it must perform its role as “conscience and critic” because events of recent months have demonstrated that the warnings of Dr. Burton and Chairman Williams have come to pass...*

*...When the POB voted to terminate its existence, the lack of progress in connection with the independence reviews and the frustrations that stemmed from the funding cut off and slow negotiations over the new charter all played a role.*

*But the precipitating factor was the decision of the SEC to develop a new regulatory structure in private talks with the AICPA and the Big 5 firms, with no consultation with the POB. The SEC did not consult with the POB even though the POB had been established by the AICPA, in consultation with the SEC, to protect the public interest.*

*When the POB initially learned of these talks, it asked to be included in the process and was promised that it would be consulted. That consultation never took place. In the end, the POB was simply informed - on*

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<sup>5</sup> See **Appendix A** at: <https://rpc.cfainstitute.org/sites/default/files/docs/comment-letters/cfa-institute-senate-letter-pcaob-reconciliation-bill-appendix-a.pdf>

<sup>6</sup> See **Appendix B** at: <https://rpc.cfainstitute.org/sites/default/files/docs/comment-letters/cfa-institute-senate-letter-pcaob-reconciliation-bill-appendix-b.pdf>



the day of the announcement of the proposed new structure - that there was no continued role for the POB in this structure, rendering it a “lame duck.”

*The POB determined that it could not effectively oversee the activities of the accounting profession under the circumstances, and that it would mislead the public to appear to do so. Furthermore, the POB was concerned that if it were to continue during an interim period before a new governance structure was in place, it would leave the impression that the POB approved of the SEC proposal, which it did not. Thus, as a matter of principle, it voted to terminate its existence.*

*The Public Oversight Board strongly believes that a new regulatory structure for the accounting profession is essential and that, to be effective, it must be based on the foundation of federal legislation.*

The above quote is extracted from a white paper, [\*Road to Reform\*](#), (the “White Paper”) published by the POB upon their decision to terminate.

The White Paper provides a fascinating depiction of the auditing profession’s behavior and how it neutered the POB with the assistance of the SEC. The Introduction, Executive Summary and Conclusion provide an excellent summary of their review of the history of the audit profession’s opposition to even its own self-regulation in pursuit of avoiding further legislative action – and the POB’s decision to terminate its existence.

The POB recommended strong legislation by Congress to create an independent audit and accounting oversight function. They noted the following in the White Paper:

*While many will urge that Congress act with caution and that the profession be again given the opportunity to fix the present system with marginal changes, the POB believes it is time to resist the continuation of the status quo and move ahead with fundamental change.*

The White Paper also notes the remarks of Former SEC Chairman Levitt:

Mr. Levitt, the former SEC chairman, also described this problem in testimony before the Senate Banking Committee in February 2002. “*More than three decades ago,” he said, “Leonard Spacek, a visionary accounting industry leader, stated that the profession couldn’t ‘survive as a group, obtaining the confidence of the public...unless as a profession we have a workable plan of self-regulation.’ Yet, all along the profession has resisted meaningful oversight.*”

As we describe below, in July 2002, Congress acted, resisting the call for caution, and created an independent audit regulator – the PCAOB – under the SOX Act.

We reference this White Paper as the appearance of these Provisions of the Reconciliation Bill – out of thin air with no public debate, despite the audit profession being vested with the public interest – have the effect of eliminating and defunding the PCAOB and undermine a central tenant of the SOX Act – the creation of an independent audit regulator. Recent events are remarkably similar to the events of 2002 related to the POB, prompting many to ask: Is this “déjà vu all over again?”

The audit profession has been silent with respect to these Provisions, despite being a vocal critic of the PCAOB in its comment letters related to auditing standards and transparency regulations over the last three years. As such, investors can only assume the profession is supportive of

these efforts as they have the effect of deregulating audit oversight through defunding of the audit oversight activities of the SOX Act. A long, messy and unfunded “transfer” to the SEC has the effect of the audit firms being self-regulated.

We ask the Senate to resist the audit professions desire to deregulate itself and defund the PCAOB.

Further, given the history we remind stakeholders of above, investors need to be convinced, not dismissed, in their concerns regarding the SEC’s capabilities to perform audit oversight. The SEC had responsibility of oversight of auditors before the SOX Act – as the POB White Paper, *Road to Reform*, reminds us. This SEC oversight was not effective, and Congress created the PCAOB in response to this ineffective oversight. Returning this responsibility to the SEC is something investors need to be convinced is effective as it is integral to trust in markets and capital formation.

### ***Remembering Why the SOX Act and PCAOB Were Created: Congress Acted to Provide Stronger Oversight of the Auditing Profession***

President Bush signed the SOX Act into law 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.<sup>7</sup>

The SOX Act was a landmark piece of legislation meant to ***protect investors by improving the accuracy and reliability of corporate financial reporting and restoring the public trust in the U.S. capital markets.***

Recognizing that weak auditing standards, a lack of auditor independence, and lax, underfunded oversight of audit firms were key root causes of the crisis – as the POB White Paper illuminates – 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.”***<sup>8</sup>

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.”***<sup>9</sup>

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<sup>7</sup> 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 the world,”](#) June 9, 2004.

<sup>8</sup> [President Bush Signs Corporate Corruption Bill.](#)

<sup>9</sup> [Statement Before the Open Meeting Regarding PCAOB and FASB Budget Review](#)

***There is no evidence to suggest that the PCAOB is not meeting its investor protection objective as outlined in the SOX Act.***

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.

***Our Concern: The Effective Elimination of Not Just the PCAOB, But Audit Oversight***

These Provisions seek to transfer the audit oversight activities of the PCAOB created under the 2002 SOX to the SEC using the narrative of cost reductions and deficit reduction.

Yet the PCAOB and SEC are both deficit neutral organizations funded through an accounting support fee, in the case of the PCAOB, and a securities transaction fee, in the case of the SEC. Transferring the same, higher or a lower level of costs from one deficit neutral organization to another has no impact on the Federal deficit.

But this is not simply a transfer of audit oversight activities from the PCAOB to the SEC as Sections 50002 and 30005 of the Reconciliation Bill eliminate the funding of the PCAOB's accounting support fee and Section 30005 Paragraph 6, prohibits the SEC from levying Section 31 fees – its primary source of funding – to pay for audit oversight.

The Reconciliation Bill is silent regarding how the audit oversight activities – which are currently mandatorily funded under the SOX Act – will be funded.

***In substance, the oversight of auditors would be eliminated because the SEC has not been provided with any funding and does not have the skills, capacity, or experience with audit inspections. Additionally, the SEC was responsible for auditor oversight before the SOX Act and the creation of the PCAOB. This oversight was not effective.***

As the POB White Paper demonstrates, we have seen this movie before.

***Impact on Quality of Financial Reporting, Capital Markets and Capital Formation:  
No Outreach or Consultation with Investors***

Reconciliation 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.

***There has been no outreach to investors regarding the consequences of removing this important element of the SOX Act – despite the auditing professing being one vested with the public interest.***

If adopted, the Provisions 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 U.S. and litany of recent scandals outside the U.S., 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.

***Example of How Provisions Impact Capital Formation:***

***The Inability to Inspect the Audits of Foreign Companies & Their Automatic Delisting***

A stated objective of the Trump Administration is capital formation. These Provisions are antithetical to that objective. As we describe in **Appendix B**, no consideration has been given to the policy effects of these Provisions. They have not been evaluated. One vivid example of this failure to consider the policy effects is the interrelationship between these Provisions and the [Holding Foreign Companies Accountable Act \(HFCAA\)](#).

The PCAOB’s agreements to perform inspections of foreign audit firms and foreign company audits do not transfer to the SEC. All such agreements must be renegotiated. As the PCAOB notes in its write-up to the House Financial Services Committee, more than half of their inspections are foreign firms. Lack of these agreements would also prohibit inspection of the foreign subsidiaries of U.S. public companies.

Under the HFCAA, if foreign firms cannot be inspected for three years, their shares would automatically be delisted under the HFCAA. This means that every foreign private issuer would be delisted if the agreements could not be renegotiated within two years and inspections completed by the third year.

As the PCAOB has highlighted many of these agreements have taken years to negotiate. It will become even more challenging to negotiate for the SEC as foreign governments will not just give access to the foreign audit firms – nor the books and records of the foreign companies within their jurisdiction – to another government. Giving such access to the SEC is highly unlikely in the case of Chinese companies. The independent nature of the PCAOB was an important consideration to the Chinese in allowing those inspections. The PCAOB’s independence was an integral feature of the SOX Act which is being lost and not subject to regular order debate. Matters other than cost, particularly independence, were a feature of the SOX Act. A feature the legacy POB noted was essential. This loss of independence is a far more significant policy effect than the illusory cost savings from moving audit oversight activities between two deficit neutral entities.

## **ELIMINATION OF THE PCAOB IS NOT DEFICIT REDUCING**

In **Appendix A** we undertook an extensive analysis to understand how Sections 50002 and 30005 of the Reconciliation Bill would impact the Federal deficit as it was clear in our conversations with interested parties and legislators that there was not a comprehensive and accurate understanding regarding how these Provisions would impact the Federal deficit.

Many are unclear regarding, haven't given sufficient thought to, or misstate the impact of how transferring activities from – or reducing costs of – one deficit neutral entity, the PCAOB, to another deficit neutral entity, the SEC, has any cash flow impact on the Federal deficit. There is no cash flow impact on the deficit. Cutting costs at the PCAOB does not provide additional funds to reduce the Federal deficit or repay the Federal debt.

It is also unclear to investors and others why this change to the SOX Act is being made in the Reconciliation Bill because such entities are both deficit neutral. Said differently, why are deficit neutral entities being legislated through a Budget Reconciliation Bill.

Our analysis in **Appendix A** demonstrates that the inclusion of the PCAOB in the Reconciliation Bill is:

- 1) Based upon illusory savings derived from the mechanical reversal of an economically theoretical, indirect assumption resulting from a presentation decision regarding how the PCAOB's revenues appear in the Federal Budget. This is the 25% revenue offset (haircut) which we explain in the appendix, but which we cannot confirm is actually reflected in the Federal Budget.
- 2) These changes are being made by Congress without any consideration of the:
  - a. transition or forward ongoing costs of the "transfer" to the SEC – nor how they will be funded, or
  - b. fundamental policy effects resulting from the inclusion of Section 50002 in the House version and Section 30005 in the Senate version of the Reconciliation Bill.

In **Appendix A** we discuss these provisions' impact on the costs and the Federal deficit as well as the CBO estimate and the net effect of these legislative provisions on the Federal deficit.

In **Appendix B** we consider the policy effects and why these changes should not be made through the Reconciliation Bill.

The "savings" noted in **Appendix A** are theoretical, indirect savings that are clearly incidental to the policy effects created by these Provisions as described in **Appendix B**. The policy effects have in no way been considered by the House Financial Services Committee which included these Provisions in the Reconciliation Bill.

Understanding the true net effects of the legislative text and the CBO estimate regarding these Provisions requires understanding and analyzing how the PCAOB is funded and presented in the Federal Budget and how that compares to how the SEC is funded and presented in the Federal

Budget – and their net impacts on the Federal deficit. This understanding is essential to comprehending the real effects of Sections 50002 and 30005 of the Reconciliation Bill.

They are also integral to understanding how they have been used to tuck the PCAOB elimination provisions into the Reconciliation Bill as well as for determining whether inclusion of these Provisions in the Reconciliation Bill is appropriate.

In [Appendix A](#) we include seven steps (Items 1-7) which detail our analysis and the net effect of that analysis. Below we provide the net result of our analysis presented in Item 7 of **Appendix A**. For the sake of brevity **Appendix A** is accessible through a link in this letter, but we encourage review of the appendix for a comprehensive understanding of the analysis as **Appendix A** “shows our work.”

Below we summarize the net result of our analysis in [Appendix A](#).

- a) ***PCAOB is Deficit Neutral: Costs, Revenues and Cash Collections*** – The PCAOB has always – until now – been considered deficit neutral even by the CBO and OMB’s own scoring upon its establishment in 2002. The PCAOB’s budget is approved by the SEC which determines the accounting support fee. The accounting support fee is levied against public companies based upon market capitalization – with the largest public issuers bearing the most significant portion of the audit oversight costs within the SOX Act. The accounting support fee is deductible by such companies for Federal income tax purposes. The costs and fees are considered mandatory, not discretionary for budget purposes. The PCAOB collects the fees from public companies for both the PCAOB and FASB, remitting the FASB’s portion to them. The accounting support fee monies never go to the U.S. Treasury. The impact on the Federal deficit is neutral. Items 1, 2, and 5 in **Appendix A** explain these conclusions.
- b) ***SEC is Deficit Neutral: Costs, Revenues and Cash Collections*** – The SEC too has been considered deficit neutral. Its budget is approved (appropriated on a discretionary basis) by Congress and then Section 31 securities transaction fees are levied against SROs who collect the fee from broker dealers. Such Section 31 fees account for 75-80% of the SEC’s revenues. Other fees such as registration fees, offering fees, and filing fees account for the remainder of the SEC’s revenues. Sufficient Section 31 fees are collected to offset the costs of the SEC’s activities making the SEC deficit neutral. Securities transaction fees are remitted to the U.S. Treasury.

It has been assumed these Section 31 securities transaction fees are paid for by investors voluntarily engaging in securities transactions. However, with the advent of payment for order flow (PFOF) and zero cost trading, such Section 31 fees – which are used to cover the SEC’s operating costs – are actually paid principally by broker dealers directly – who, like the companies paying accounting support fees, deduct them for Federal income tax purposes. We illustrate this using Charles Schwab as an example as it is the largest public company broker dealer.

Items 3 and 5 in **Appendix A** explain these conclusions.



- c) ***Moving Costs from One Deficit Neutral Entity (PCAOB) to Another (SEC) Does Not Reduce the Federal Deficit: But it Does Transform the Mandatorily Funded Audit Oversight Activities to Discretionary without Consideration Under Regular Order*** – Because both the PCAOB and SEC are cash flow, deficit neutral the transfer of any costs from one to the other – higher, lower, or the same – does not result in a deficit impact.

The talk of lower costs and achieving savings through these provisions of the Reconciliation Bill has no net impact on the budget. Cutting PCAOB costs and transferring those, supposedly, lower costs to the SEC, has no impact on the Federal deficit. A factor which should be considered in evaluating whether Sections 50002 and 30005 should be included in the Reconciliation Bill.

The proposed changes to the PCAOB do, however, change the PCAOB from being mandatorily funded to being discretionarily funded for the purpose of the Federal Budget. A change that should be considered in regular order along with the massive transition and policy effects which have not been considered as we set forth in **Appendix B**.

- d) ***Inclusion and Presentation of the PCAOB, FASB and SEC in the Federal Budget: Different Presentations, Results in the Application of a Theoretical Economic Assumption (25% Haircut) to PCAOB Revenues, But Not SEC Revenues*** – Purportedly, the presentation of the revenues and expenses of the PCAOB versus the presentation of the revenues and expenses of the SEC within the Federal Budget produces a different effect on the Federal deficit despite both entities being cash flow neutral. We say purportedly as we have not been able to confirm with the Congressional Budget Office the amounts or presentation of the PCAOB revenues, including the application of the haircut – in the Federal Budget. This is something we believe the Senate should require confirmation of.

Despite being a legally distinct entity from the U.S. Government, the PCAOB is included in the Federal Budget based upon a long-standing budget interpretation we explain in Item 2 in **Appendix A**. The SEC, of course, is an independent agency of U.S. Government so it is naturally included within the Federal Budget.

The revenues and costs of the PCAOB are presented gross within the Federal Budget – with revenues purportedly included within the revenue line and costs included in the costs line of the Federal Budget.

The SEC is treated differently; it is presented net with revenues netted against costs to show that the SEC is deficit neutral on both a cash and budget basis.

We are told, but cannot confirm, that because the PCAOB revenues are presented within revenues – not offset against costs, as in the case for the SEC – that the OMB applies a 25% revenue offset (haircut or reduction) to such revenues. This offset (haircut) is based upon a long-standing theory that such revenues represent indirect fees and reduce the factors of production in the economy which could create direct tax revenue. Basically, because such

fees are not deemed a fee for service and because they are deductible by the corporations paying them the haircut is applied.

The SEC fees are, however, considered direct fees for service as they are based upon a direct taxpayer (an individual) agreeing to enter into the transaction and pay the securities transaction fee. As a result, the revenues of the SEC – though considered revenues in the SEC’s own financial statements – are deemed “offsetting collections” to which a 25% haircut is not applied. They are reflected as a reduction of the costs presented in the Federal Budget reflecting the deficit neutral impact of the SEC.

However, this treatment of securities transaction fee – in our view – fails to recognize that securities transaction fees are not visible to such individual consumers with the advent of payment for order flow (PFOF) and the zero cost trading most investors experience today. Accordingly, they are no longer direct revenue and should not be considered offsetting collections.

As we demonstrate in Items 2 and 3 of **Appendix A** companies deduct the accounting support fee for the PCAOB, and companies (broker dealers) deduct the Section 31 securities transaction fees. Both are substantively indirect to the end consumer. Said differently, they are economically equivalent and should be treated similarly in the Federal Budget. Either both revenues from fees should be presented gross and indirect or both net and direct. Presentation in the budget should not alter the economic substance of the fees and their impact on the Federal deficit.

As such, any reduction in costs and revenues for the PCAOB should result in the same effect when incurred by the SEC. But, as we outline below, no consideration of transition or ongoing costs has been made in the CBO estimate.

Items 2, 3 and 5 in **Appendix A** explain these conclusions.

- e) ***The Entirety of the CBO Estimated Savings from PCAOB Transfer Comes from Reversal of 25% Revenue Offset (Haircut) Which is Indirect and Inconsistently Applied*** – Item 6 in **Appendix A** illustrates that the entirety of the estimated “savings” from the “transfer” (i.e. elimination) of the PCAOB to the SEC included in the CBO estimate is the reversal of this 25% haircut on the revenues of the PCAOB. As noted in Item 6, we have not been able to confirm the inclusion of this haircut in the actual 2025 Federal Budget.

As we note in Item 1 in **Appendix A**, the CBO previously did not include such a haircut – though they state in publications going back to 2009 it is a long-standing practice. Apparently, just not a practice applied to the 2002 CBO estimate that concluded the PCAOB was budget neutral.

Item 6 illustrates that the entirety of the estimated savings from the “transfer” (i.e. elimination) of the PCAOB to the SEC that is included in the CBO estimate is based on the

reversal of a theoretical economic assumption – an indirect theoretical benefit, not a direct cash benefit to the U.S. Treasury which can be used to pay down the Federal debt.

Including the PCAOB in a Reconciliation Bill based upon the reversal of a theoretical assumption belies the due process required by the regular order of legislative due process.

- f) ***Comparison of the PCAOB, FASB, and SEC Budget Treatment to GASB Demonstrates Inconsistency in Budget Inclusion, Presentation and Application of the 25% Revenue Offset (Haircut)*** – As we highlight in Item 4 in **Appendix A**, the 2010 Dodd-Frank Act imposed a fee on municipal securities transactions to provide an accounting support fee to fund the GASB. As this would be similar to what House Section 50002 would propose, we sought to explore how the GASB and its accounting support fee were included in the 2010 Dodd-Frank Act CBO Estimate and the 2024 Federal Budget.

We could not see any reference to the GASB in the 2010 Dodd-Frank Act CBO Estimate.

We found that, unlike the PCAOB and FASB, the GASB was not included in the Federal Budget. This demonstrates the inconsistent application of not only the PCAOB but also the FASB, the GASB's sister board at the Financial Accounting Foundation within the Federal Budget. As the GASB is not included within the Federal Budget the accounting support fee and whether a 25% revenue haircut would not have been taken.

Again, another illustration of the inconsistency of the application of U.S. budget preparation rules which highlights the spurious nature of including them as a basis for including the PCAOB in the Reconciliation Bill.

However, it also brings to light the question of whether the simple change of the accounting support fee (based upon market capitalization of issuers) to a securities transaction fee could result in net presentation of expenses and revenues of the PCAOB or the exclusion of the PCAOB and FASB entirely from the Federal Budget. This is not something explored by Congress.

- g) ***The CBO Estimate Excludes Transition and Ongoing Costs Associated with the SEC's Assumption of Audit Oversight Activities*** – The Senate Banking Committee touts the costs savings and avoidance of duplication of efforts of the PCAOB and SEC in its release on the Section 30005 language as we highlight in Item 6 in **Appendix A**.

These touted savings are non-sequiturs for several reasons:

1. No estimate of the costs of transitioning audit oversight activities to the SEC – which will be large – has been made. For example, there will be costs associated with renegotiating every foreign inspection agreement, assembling an entire workforce, and creating inspection and standard setting processes, which will increase the costs of the audit oversight activities, yet these have not been talked about or considered.
2. No estimate of the SEC's ongoing costs to perform such audit oversight activities has been prepared. Much focus is placed on the elimination of the PCAOB board, but this results in



a \$3-4 million savings on a \$400 million PCAOB budget. These represent 1% of the PCAOB's budget. These salaries are used as a rallying cry to oppose the PCAOB, but they are a very small percentage of the PCAOB's costs, and such salaries are 50% of the FASB board members' salaries, which represent nearly 20% of the FASB's accounting support fee. The costs and fees for FASB, however, are not being targeted in the Reconciliation Bill – though they are in the same section of the SOX Act (Paragraph 109(e).

3. There is little duplication of effort between the SEC and PCAOB. There is no duplication in inspections or registrations. There is a small amount of overlap in enforcement given both can bring enforcement actions, but these actions are either divided between or done in collaboration between the organizations. The SEC does approve the PCAOB audit standards and rulemaking, but as an oversight function – not as an audit standards creation function. Given few standards – until recent years – have been issued – calling this a duplication is an overstatement. As the SEC will still have to approve auditing standards and their work will move from oversight (much less costly) to the creation of standards, the savings seem minimal. The SEC also monitors and informally approves the FASB standards. This doesn't appear to be duplication necessitating the transfer of the FASB to the SEC.
4. The Federal workforce will increase.

- h) ***An Additional Wrinkle: Section 30005 (Paragraph 6) of the Reconciliation Bill, Eliminates Most Significant, Possibly Only, Means of Funding Transferred Activities*** – Members of the Senate Banking Committee familiar with the broker dealer business – and specifically what was the largest PFOF entity – TD Ameritrade, before it was acquired by Charles Schwab – understand that Section 31 fees are not direct – they are indirect. Organizations such as Charles Schwab would, through increased Section 31 fees, disproportionately bear an increase in fees used to support audit oversight.

That is why we believe Section 30005 Paragraph (6) has been added to the Senate version of the Reconciliation Bill. This paragraph states that the SEC cannot assess Section 31 fees – the SEC's primary source of funding – to cover the transferred auditing oversight activities.

The effect of Section 50002 plus Section 30005 of the Reconciliation Bill is that the funding of audit oversight activities of the PCAOB are not just moving from mandatory to discretionary – they are being eliminated.

***No provision has been made by Congress regarding how the audit oversight activities required under the SOX Act will be funded.***

While the SEC has the ability to levy registration fees, offering fees and filing fees – they are not material to the SEC's budget, and they are associated with specific activities. It is unclear whether such fees could be levied to cover audit oversight functions. If so, they would have to be doubled. Further, the PCAOB's registration fees under [Section 102\(f\) of the SOX Act](#) are restrictive in their description of what they can cover. Still further, if such registration fees were used to cover audit oversight this would have the effect of requiring public



company auditors to pay for their oversight which will create independence related policy effects which have not been considered.

The Reconciliation Bill provides no fee mechanism upon which to fund the audit oversight activities being transferred. Increasing registration, offering fees, or filing fees – even, if possible, would directly impact capital formation for entities of all sizes.

Overall, as we step back from these PCAOB related provisions in the Reconciliation Bill we see this as a shell game with objectives other than deficit reduction (i.e., the substantive elimination of audit oversight activities.)

The PCAOB is included in the Reconciliation Bill based on the reversal of an indirect, theoretical economic assumption applied because of OMB presentation of the PCAOB. Through this OMB magic the CBO estimates a non-cash, illusory deficit reduction, without estimating any future real cash costs or evaluating the policy effects of such a significant change.

**EVALUATION UNDER THE BYRD RULE  
INDICATES EXCLUSION OF SECTIONS 50002 AND 30005 IS APPROPRIATE**

In [Appendix B](#) we evaluate whether Sections 50002 and 30005 should be included in the Reconciliation Bill. Much of that appendix is devoted to highlighting the policy effects of the Provisions as our work and discussions regarding these Provisions brings us to the conclusion that no consideration has been given to the policy effects to what amounts to the elimination – rather than transfer – of the PCAOB’s audit oversight activities, this key feature of the SOX Act.

We believe Sections 50002 (House) and 30005 (Senate) of the Reconciliation Bill should be removed under the Byrd rule as the:

- 1) Budgetary effects are indirect, based upon the reversal of an indirect secondary, theoretical assumption which we have been unable to ascertain is actually reflected in the 2025 Federal budget;
- 2) Evidence is substantial and compelling that the PCAOB is being specifically targeted; and
- 3) Budgetary impacts are incidental to the much more significant nonbudgetary policy effects of the Provisions – of which Congress has made no assessment.

Below we summarize the more extensively considered aspects of this analysis in [Appendix B](#) which, for the sake of brevity is included, through a link. We “show our work” related to the summarized conclusions below in that appendix.

***Budget Effects Are Indirect***

Our extensive analysis in [Appendix A](#) and summary in the preceding section demonstrates that the CBO’s purported budgetary savings stems from the reversal of a secondary, indirect theoretical economic assumption which we are told – but cannot verify – reduced revenues and increased the Federal deficit in the Federal Budget when applied and which decreases the Federal deficit when reversed. This is budget magic – not real cash which can be used to reduce the U.S. Federal deficit and debt.

The purported savings through transferring the audit oversight activities to the SEC have not been quantified and whether higher, lower or the same upon the transfer of the PCAOB activities to the SEC they have no impact on the Federal deficit. As such, Sections 50002 (House) and 30005 (Senate) should not be included in the Reconciliation Bill.

### *The PCAOB is Being Targeted*

In **Appendix B** we provide evidence that the PCAOB is being targeted because:

- 1) The PCAOB has worked to achieve its investor protection mandate under the SOX Act and in doing so has upset the auditing profession.
- 2) The FASB's accounting support fee which is included at Paragraph 109(e) of the SOX Act – just after Paragraph 109(d) which is the paragraph funding the PCAOB – is not being eliminated.
- 3) The GASB accounting support fee in Section 978 of the 2010 Dodd Frank Act is not being eliminated.
- 4) Congress could simply change the nature of the accounting support fee to be a securities transaction fee, as is the case for the funding of the GASB, rather a fee assessed against public companies. Doing so would eliminate any revenue offset. This would not necessitate transfer activities to the SEC. Failure to consider this option highlights that this is not about cost savings, but elimination of the PCAOB.
- 5) The SEC has criticized the budget of the PCAOB, while quietly approving similar increases at the FASB and GASB. We provide an analysis of the accounting support fee for all three entities in **Appendix B** to back that up. The budget approval process for the PCAOB has shown the PCAOB is being whipsawed by partisan politics. The SOX Act created an independent well-funded audit oversight function to eliminate such partisan ship. Transfer to the SEC shows that audit oversight activities will only become more partisan.
- 6) The PCAOB board member salaries have been a target of the SEC and Congress for 16 years, but they are less than 50% of the FASB board member salaries (\$1-\$1.3 million FASB salaries vs. \$540K to \$674K PCAOB salaries), which are not the subject of discussion or targeting of the FASB. PCAOB board member salaries represent 1% of the PCAOB accounting support fees, whereas the FASB board member salaries represent 17% of the FASB's accounting support fees – and the breadth and responsibility level of the FASB Board members is far less significant. We provide the numbers, math and references to support our analysis in **Appendix B**.
- 7) PCAOB staff salaries have also been the target of the SEC and now Congress, but average revenue and salaries per employee are not substantially different from those at the FASB's and GASB's parent, the Financial Accounting Foundation. We provide the numbers, math and references to support our analysis in **Appendix B**. As we note below, regarding the impact on the workforce of these Provisions, the average salary of professional accounting fellows at the SEC is not substantially different than the salaries of the PCAOB staff. No actual savings from this asserted claim have been computed.
- 8) While reducing board members and staff salaries and duplication is a political rallying cry, there is no impact on the deficit from these actions. There are no real savings from moving costs from one deficit neutral entity to another. This, and the comparative analysis with the FASB, evidence that these Provisions are about control and elimination of the PCAOB rather than cost savings. The Provisions negate the independent nature of audit oversight activities which were a key feature of the SOX Act. This results in a fundamental change to the SOX Act being affected through budget reconciliation rather than regular order.



## *The Policy Effects Are Significant and Have Not Been Considered*

As we noted above, the cost savings are specious and political. There are no estimates of the transition or ongoing costs of this “transfer” of audit oversight to the SEC. The policy effects of Section 50002 and 30005 have been given even less, actually no, consideration. A simple consideration of them as we have done in [Appendix B](#) shows they are significant and make fundamental changes to the spirit and intent of the SOX Act which should not be done through a Reconciliation Bill.

## *Investors Only Now Beginning to Become Aware and Weigh-In:*

**Additional Time is Needed to Engage Investors in the Process** – In [Appendix B](#) we highlight the policy effects after we highlight probably the most important policy effect – that being that these Provisions were included within the Reconciliation Bill without any notice, discussion or consideration of the matter with investors – those who will suffer from audit oversight failures. They are the public interest the audit profession is meant to serve, yet they have not been consulted.

In a period of approximately 50 days, Congress is effectively unwinding, the PCAOB, without any due process and only a currently emerging awareness of these provisions which negate the independent nature of audit oversight activities – a key feature of the SOX Act. The timing demonstrates the insufficiency and inability to obtain feedback on the policy effects.

In [Appendix B](#) we highlight the press on this issue and the letters received from investors and other interested parties opposing these provisions, including a New York Times Essay by the Enron and WorldCom Whistleblowers, [\*We Exposed Fraud at Enron and WorldCom. Don't Let History Repeat Itself.\*](#)

**Examples of Key Policy Effects That Have Not Been Considered** – Below we highlight and summarize the key policy effects which we have identified that have not been considered. Each is described in more detail in [Appendix B](#). Collectively, they are far more significant than the indirect, theoretical savings in the CBO estimate.

- [Loss of Independent Oversight of Audit](#) – Elimination of PCAOB board members, transfer of audit oversight and auditing standards to the SEC, and the lack of a funding mechanism are fundamental changes to the central tenants of the SOX Act. U.S. investors sought an independent, non-partisan, audit regulator and audit standard setter as part of the SOX Act. Investors sought such independence to ensure that auditor oversight as well as auditing and accounting standards were not partisan and not subject to the political whims of the moment. Both accounting and auditing standards should be based upon thoughtful evidence-based rulemaking, not partisan politics. It is essential for capital formation. These Provisions of the Reconciliation Bill appear to assume that accounting standard setting should remain independent, but auditing standards – as well as audit firm inspections and auditor enforcement – should not be independent as envisaged in the SOX Act. Sections 50002 and 30005 are not simply a transfer of responsibilities from the PCAOB to the SEC, they represent the loss of a key legislative feature of the SOX Act – that being independent



standard setting and auditor oversight. This is a fundamental change to the SOX Act which should be a matter for public debate and investor input as part of the regular legislative order.

- [Elimination of Funding](#) – Elimination of the accounting support fee and the inability of the SEC to use its primary fee source to fund the transferred audit oversight activities combined with the failure to articulate an alternative funding source not only moves the funding of such activities from mandatory to discretionary, it defunds audit oversight established under the SOX Act. These Provisions fail to articulate if not defunded how audit oversight costs would be borne by the economy, including their impact on capital formation should alternative fees redistribute costs across the economy to, for example, new registrants or smaller issuers. A well-funded and independently funded audit oversight board was a central feature of the SOX Act. These Provisions remove this central tenant without consideration of the effects under regular legislative order.
- [The False Narrative of Cost Savings and Elimination of Duplication](#) – The costs savings in the CBO estimate are not related to future cost savings, but the reversal of a unconfirmable, indirect, theoretical economic assumption. Asserted savings and elimination of duplicative efforts have not been quantified nor have the costs of transferring (restarting) oversight activities at the SEC been considered. Additionally, moving costs (larger, smaller or the same) from one deficit neutral entity has no impact on the deficit. There are no real cost savings from these Provisions which can be used to pay down the Federal debt. Lauded costs saving and avoidance of duplication are false narratives.
- [Increase in Federal Headcount](#) – Neither the CBO, House or Senate highlight that Federal employee headcount will increase under these Provisions a policy effect that is counter to the current administration's policy objectives and desired policy effects of legislation. There has been no quantification of how many of the 900+ PCAOB employees will be needed and whether there will be sufficient headcount to meet the policy objectives of the SOX Act.
- [No Assessment of PCAOB Effectiveness & Needed Improvements, Alternative Structures, or the Ongoing Technological and Governance Shifts in the Audit Market](#) –
  - There has been no assessment of PCAOB or FASB effectiveness over the last two decades during which the organizations have been receiving accounting support fees under the SOX Act. Though they are both overseen, and their budgets approved by the SEC, neither Congress nor the SEC has evaluated the PCAOB's or FASB's effectiveness or established metrics to evaluate effectiveness, yet they assert these Provisions will result in improvements in efficiency and effectiveness. The only improvements highlighted are cost related without knowledge or consideration of the people, processes and technology of the PCAOB. There has been no identification or articulation of the audit oversight activities which need reform, what they might cost or the resulting policy reforms and effects.

Shuttering the PCAOB and restarting unfunded oversight activities by the SEC is being effectuated without any such evaluation of effectiveness and efficiency of the organization, what needs to improve and the related policy impacts of the transfer.



Without such analysis, Congress and the SEC cannot determine the policy effects of this transfer will be positive.

- Congress has not considered any alternative structures to enhance the efficiency and effectiveness of accounting and auditing standard-setting as well as auditor oversight. For example, consideration of a revised structure which combines the accounting and auditing standard setting process to enable, for example, the more effective implementation of technological developments in both preparation and assurance over financial statements and the inspection process. And a structure which could inform both the audit and accounting standard setting processes.

There are also efficiencies to be gained in dealing with the SEC and securities regulators and standard setters globally. We understand a combined approach was considered in 2002 – see POB White Paper, [Road to Reform](#) – but derailed by the International Accounting Standards Board's (IASB's) desire to create one set of international accounting standards.

With changes in technology, now would seem to be a perfect time to consider a joint structure with real, not manufactured, overhead savings that could be achieved while increasing effectiveness and efficiency of both the PCAOB and FASB and enhancing the formation of capital in the U.S. Yet, this has not been studied. Rather, the disintegration of the PCAOB is a proposed solution.

- This transfer is also being effectuated during a period of significant technological change for the audit process and industry and the entry of private equity into audit firm structures. Lack of continuity in oversight of the auditors during such a period of audit market transition represents a clear and present danger for investors as governance and processes within the audit profession are changing to invest in technology and remain competitive. These effects are significant to audit quality and have not been considered by Congress.

Overall, these Provisions force change in the audit oversight activities without understanding what is not effective or efficient during a period of secular change for the auditing business. Is the SEC capable of undertaking audit oversight with no funding and getting up to speed on the transformation of audits due to technology at the same time?

- [No Consideration of Transition Effects](#) – Based upon our discussions with members of Congress and other interested parties there has been little consideration relative to how this “transfer” would be effectuated. It is clear little thought has been given to how a transfer would actually be effectuated and that there is no transition plan. Important matters like the legal ability of the PCAOB to transfer databases and intellectual property; whether sensitive information would be subject to the Freedom of Information Act (FOIA), and how important items like foreign inspections could be accomplished have not been considered.



Without consideration of the method of transition or the effects on the key processes of the audit oversight activities the policy effects could be untold – including the impact on audit quality at the audit firms who are aware of, and can exploit, the state of confusion and turmoil being created at their regulator.

- [Disassembly of Workforce & Impact on Inspection Quality Not Evaluated](#)– Eliminating the five PCAOB board members is one of the widely lauded features of these Provisions in the Reconciliation Bill, but our analysis shows their salaries are a small percentage of the costs of the PCAOB. Another widely lauded feature of these Provisions is that they propose to reduce the pay scale of the other 900+ members of the PCAOB if and when they or others are employed by the SEC in executing these audit oversight responsibilities. In **Appendix B** we highlight that such savings are likely overstated based upon relevant pay ranges.

No analysis of what the savings – if any – would actually be achieved has been made. Further, direct costs associated with disassembling (i.e. loss of talent) and potentially reassembling the workforce have not been considered. Most importantly, no consideration has been given to the negative impact this will have on the ability to maintain audit oversight activities under the SOX Act during or after any transfer.

These Provisions of the Reconciliation Bill set up a death spiral for the assembled workforce with no incentive to stay or do good work.

In an economy that is facing a shortage of supply of qualified accountants and auditors – this seems illogical. The best employees will leave – because of the uncertainty brought about by this legislation – and the assembled work force will begin to disassemble. The uncertainty will also bring a lack of focus and a desire by inspectors not to be too critical of the audit firms they may seek to work for. Additionally, some members of the workforce with international backgrounds doing international inspections may not be able to be hired by the SEC. None of these policy effects have been considered.

- [Loss of Independent Auditing Standards: No Plan or Effects Analysis](#) – These provisions of the Reconciliation Bill purport to transfer audit standard setting to the SEC while accounting standard setting stays with the FASB. Independently formulated auditing standards are as important as independently formulated accounting standards.

Yet, there is no consideration of the policy effects of this change nor how this process might work at the SEC. Investors need to ensure the auditing profession is not left to create auditing standards for its benefit rather than the benefit of investors.

The profession is already signaling a desire to undertake this element of audit oversight. In a February 10, 2025 Accounting Today article, [AICPA Prepares For Possibility Of PCAOB Being Folded Into SEC](#), they note their desire to “help with setting standards.”

- [No Consideration of Negative Effect on Inspections –](#)
  - [There Has Been No Consideration Given to the Continuity and Quality of Inspections During a Transition Period](#) – The Reconciliation Bill provisions give no consideration to the continuity and quality of audit inspections. These Provisions signal the removal of the PCOAB board and the termination or pay decline of the PCAOB staff – more than half of which are in inspections personnel. This will impact the quality of inspections as the SEC will need to recreate – not simply transfer – the inspections process including people, process, technology and inspection agreements.

Investors saw a rise in inspection findings by the PCAOB in 2022 because of the lax inspections in the preceding years and the impacts of the COVID-19 pandemic on audit quality. With the audit firms aware that the inspections group is being dismantled and possibly restarted at the SEC – in a form yet to be discussed or debated – audit inspection and the quality of inspections will suffer, and underlying audit quality will suffer as audit firms know inspections will be less rigorous. This policy effect has not been considered.

- [Failure to Consider Impact on Foreign Inspections](#) – The House sponsors of these Provisions of the Reconciliation Bill have failed to consider the effect of this “transfer” of audit oversight activities to SEC on the inspections of the audits of foreign subsidiaries of U.S. public companies – or the audit inspections of the auditors of foreign private issuers.

It has taken years – decades in the case of Chinese companies – to establish inspection agreements with foreign securities and audit regulators related to inspections of foreign audit firms. Every one of such agreements would need to be renegotiated and recreated.

These agreements cannot simply be transferred to the SEC as the PCAOB is a different legal entity – a legally distinct not-for-profit entity which is not a part of the U.S. Federal Government. Being a legally distinct entity from the U.S. Federal Government was a designed feature of establishing the PCAOB under the SOX Act– a design feature which has been overlooked by the inclusion of these Provisions in the Reconciliation Bill.

Presently the PCAOB is given the ability to review the audit work of the audit firms they inspect and in doing so the PCAOB has access to confidential financial, operating and governance information of the largest foreign companies globally. Giving the SEC such access is something that seems unlikely by some foreign jurisdictions. At a minimum, all these agreements will need to be renegotiated – a process that took years at the PCAOB.

As we highlight in **Appendix B**, both the German, French and EU audit regulators have questioned the wisdom of these Provisions with respect to international audit regulatory collaboration.



An article, by two noted academics also highlights the importance of such inspection rights and eloquently articulates the advantage of the PCAOB in an article, [\*Don't Dismantle America's Audit Regulator—It's a Strategic Asset Against China.\*](#)

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. Federal Government employees the access needed to conduct audit inspections – as it would be enabling the U.S. Government to look at the books and records of state-owned enterprises.

We note the [\*April 2, 2025 letter\*](#) Senator Rick Scott sent to then SEC Commissioner nominee Atkins regarding Holding Chinese Companies on U.S. Exchanges Accountable. The PCAOB's inspection process under the HFCAA has been the most significant advancement under the HFCAA and would be lost.

In a response to the House Financial Service Committee Minority Members questions (See [\*House Mark Up Materials\*](#)), the OCA acknowledges they have no personnel familiar with audit firm inspections and that the agreements will need to be renegotiated.

- [\*Failure to Consider Interaction with HFCAA Delisting Triggers\*](#) – No consideration has been given to the policy effects on capital formation resulting from the interrelationship between these Provisions in the Reconciliation Bill and the [\*Holding Foreign Companies Accountable Act \(HFCAA\)\*](#), but its more significant than simply a delay in inspections or not being able to inspect the audits. Under the HFCAA, if foreign firms cannot be inspected for three years, their shares would automatically be delisted. This means that every foreign private issuer would be delisted if the agreements could not be renegotiated within two years and inspections completed by the third year. This is an automatic provision of the HFCAA.

The failure to consider this impact vividly illustrates the lack of consideration of policy effects of these Proposals broadly. The House Financial Service Committee has not considered the cross over impacts of Congress's own legislation – let alone any other impacts and policy effects resulting from these Provisions.

- [\*SEC Access to Issuer Audit Workpapers and Companies Books and Records\*](#) – Another policy effect which has not been considered by lawmakers, U.S. public companies (issuers) and corporate directors is the impact of allowing their securities regulator – the SEC – access to audit workpapers. Such audit workpapers contain the books and records of the public company issuers and include correspondence with and between auditors and companies and correspondence within companies.

Transferring audit oversight activities to the securities regulator gives the regulator access to company books and records (including board minutes) and unofficial correspondence – should they choose to inspect those audits. Such access could enable the SEC to, for

example, ascertain the veracity of responses to comment letters from the Division of Corporation Finance or matters under consideration by the Division of Enforcement. There is nothing that we are aware of that precludes the SEC from using access to audit firm records under audit oversight responsibilities to validate their findings, assertions or conclusions within other parts of the agency.

It is surprising public companies, and their directors have been silent regarding these effects emanating from the Provisions of the Reconciliation Bill. We do not believe they have considered such effects and their implications on their legal liability. This is but another example of how the timeframe under which these Provisions have been tucked into this Reconciliation Bill haven't enabled companies and their directors, like investors, to consider the second order policy effects of this legislation.

- [No Assessment of SEC's Ability to Assume Responsibilities](#) – As we highlight above, the sponsors of these Provisions of the Reconciliation Bill do not appear to have given any consideration to critical matters – least of which is funding – 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.

While in the creation of legislative text this is a cut and paste exercise, an actual transfer and assumption of responsibilities by the SEC is far, far more challenging. This is a dismantling of the PCAOB and the restarting of the audit oversight activities at the SEC – without a clear source of funding.

In addition to the challenges identified above relative to the processes to be transferred, a broader policy question needs to be asked and answered: Does the SEC have the capabilities to assume audit oversight? Some scoff at this question, saying: of course, the SEC is capable of it. But there has been no evaluation of that capability and the related policy effects.

In a response to the House Financial Service Committee Minority Members questions (See [House Mark Up Materials](#)), the OCA acknowledges there are few with audit firm inspections experience at the SEC.

The SEC had responsibility for oversight of auditors before the SOX Act – as the POB White Paper, [Road to Reform](#), highlights. As we discussed in the opening section of this letter, the SEC was ineffective in conjunction with the audit profession at executing these responsibilities.

- [No Consideration of Audit Profession Behavior During a Period of Transition](#) – We highlight above the challenges associated with a “transfer” of audit oversight to the SEC as well as the current matters driving the audit profession including the implementation of AI and the entrance of private equity into the profession. We do not see that the policy effects regarding how the firms will behave during this period of transition have been considered. If enacted, this would be a period of turmoil in both the operations of the auditing business and the audit



inspection process. We see no policy consideration being made regarding how the firms will behave during this period of transition. This is a real concern.

Recent developments regarding PwC's behavior in Australia and China as well as KPMG's behavior in the Netherlands demonstrate the profession cannot self-regulate. A long, messy and unfunded "transfer" has the effect of the audit firms being in a period of self-regulation.

As the POB White Paper, [\*Road to Reform\*](#), highlights, the profession has demonstrated a lack of ability to self-regulate.

- [Failure to Consider Impact on Audit Quality Globally of Eliminating the PCAOB](#) – The PCAOB's international inspections and their unique position as the only global audit regulator who sets auditing standards and performs inspections gives them the ability to see how auditing standards manifest themselves in audit work globally.

Because of this – as well as its size and dominance because of the U.S. capital markets – the PCAOB has had an outsized impact on improving audit quality globally. The PCAOB's international efforts and engagement with audit regulators globally have the impact of driving audit quality improvements globally. Said differently, the PCAOB has the effect of rising all boats.

There has been no policy consideration of the loss of this impact with the audit oversight activities folded into and distributed within the SEC – and likely not well funded. International audit regulators will no longer have a familiar port-of-call in working collaboratively on audit issues. Broadly, there has been no assessment of the effect on audit quality globally of eliminating the most influential and effective audit standard setter and regulator internationally.

- [No Assessment of the Impact on Capital Formation, Cost of Capital & the Perception of U.S. Capital Markets Globally](#) – Because of the surprise and haste with which these Provisions have been included in the Reconciliation Bill there has been no economic analysis of the effect of the elimination of the PCAOB on capital formation or the cost of capital. Our experience suggests there will be one, but policymakers have not taken the time and deliberation of regular order to assess such economic effects.

The automatic delisting of foreign companies – if they are not inspected within three years, as described above – vividly highlights the failure to consider the capital markets policy effects of such a change in legislation. There are other less direct and immediately obvious effects.

Most importantly, the U.S. capital markets are the envy of the world. Policymakers have made no assessment of the impact of eliminating the most influential and effective audit regulator globally on the U.S. and global capital markets.



## *In Summation*

In sum, there has been little consideration of the cost impacts of these Provisions (i.e., as evidenced by the illogical claims of deficit reduction from budget neutral organizations) and even lesser (i.e., none) consideration of the significant policy effects which will emanate from these Provisions in the Reconciliation Bill.

The lack of consideration of financial, operational, technological, human capital, investor protection, issuer, audit quality and capital markets effects are substantial and consequential as we highlight above. In our view, these Provision should be excluded from the Reconciliation Bill because of the failure to consider the significant policy effects of these provisions as a part of regular order legislative due process. Add to that the cost savings to the Federal deficit consist, purportedly, entirely of the reversal of a theoretical, indirect economic assumption rather than actual cash savings to reduce the Federal deficit.

Stepping back from these Provisions of the Reconciliation Bill, it is clear that they are not about cost savings or deficit reduction but of eliminating the power of the PCAOB to perform audit oversight as was the promise made to investors in the SOX Act. Neutering the impact of the SOX Act's audit oversight provisions should not be done by a Reconciliation Bill in this hasty manner.

The POB White Paper referred to above highlights the audit profession's attitude toward regulation and oversight of their profession and the behaviors and consequences of reverting to a weak audit oversight influenced by the profession who has demonstrated an inability to self-regulate.

### CONCLUSION AND REQUEST TO MEET

As we note at the outset of this letter, we are seeking the removal of Sections 50002 and 30005 from the Reconciliation Bill.

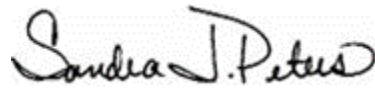
We believe our analysis demonstrates these Provisions do not directly reduce the deficit and key elements of the Byrd Rule have been violated as the second order, indirect budgetary effects are contrived and only incidental to the broader policy effects to investors and because it is evident the PCAOB is being targeted. We believe changes are being made to the SOX Act both in fact, intent and appearance that require consideration under regular order rather than tucking the defunding the PCAOB into the Reconciliation Bill.

We would also like to request a meeting with you and/or your staff to discuss our analysis in more detail.

The U.S. capital markets are the envy of the world, trust in audits builds trust in markets. These Provisions erode trust in auditors and trust in markets and are counter to capital formation.

Thank you for your consideration of our views and perspectives.

Sincerely,



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

cc:

The Honorable Senator Kennedy (LA)  
The Honorable Rick Scott (FL)  
The Honorable Peter Ricketts (NE)  
The Honorable Susan Collins (ME)  
The Honorable Mitch McConnell (KY)  
The Honorable Charles Grassley (IA)

See **Appendix A** at: <https://rpc.cfainstitute.org/sites/default/files/docs/comment-letters/cfa-institute-senate-letter-pcaob-reconciliation-bill-appendix-a.pdf>

See **Appendix B** at: <https://rpc.cfainstitute.org/sites/default/files/docs/comment-letters/cfa-institute-senate-letter-pcaob-reconciliation-bill-appendix-b.pdf>