

07 January 2025

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

Dear Secretary Countryman:

CFA Institute¹ appreciates the opportunity to comment and provide our perspectives to the U.S. Securities and Exchange Commission on the Public Company Accounting Oversight Board's ("PCAOB's" or "Board's") Release No. 2024-012, PCAOB Rulemaking Docket Matter No. 041², [Firm and Engagement Metrics](#), (the "Final Rule" or "Firm and Engagement Metrics Final Rule") as requested in the [Notice of Filing of the Public Company Accounting Oversight Board's Proposed Rule 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").

This response should be read in conjunction with:

- [Our response](#) last week to the U.S. Securities and Exchange Commission's [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", 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 "Proposed Rule" or "Firm Reporting Proposed Rule").

We cite both of these previous letters extensively throughout this letter.

We laud the PCAOB for undertaking, in an effort to create greater transparency for investors, this firm and engagement metrics rulemaking in conjunction with the Board's work related to firm reporting under PCAOB's Release No. 2024-013, PCAOB Rulemaking Docket Matter

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:
[Docket 041 | PCAOB \(https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-041\)](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](#)

No. 055³, [Firm Reporting](#), (the “Firm Reporting Final Rule”) including the PCAOB’s proposed firm reporting rule in Release No. 2024-003, PCAOB Rulemaking Docket Matter No. 055, [Firm Reporting](#), (the “ Firm Reporting Proposed Rule”) to which we [responded](#).

ORGANIZATION OF OUR RESPONSE

In this letter we compare – via a tabular comparison of the metrics – the changes in the metrics from the Proposed Rule to the Final Rule. We highlight not only the changes but the resulting net transparency to investors.

This analysis of the metrics is presented after we provide a summary, at the outset of the letter, of the decades-long history and call for this rulemaking.

Throughout the letter – and in a section at the end of the letter – we address the views of the PCAOB Board Member dissenting⁴ (the “Dissenting Board Member” or the “PCAOB Dissenting Board Member”) to this Final Rule, including making references to a similar dissent⁵ to the Firm Reporting Final Rule. Because the titles of these dissenting statements; statements made within them – including the call for oversight of the PCAOB by Congress; and the political rhetoric emanating from these statements, we believed it was important for the SEC to have a thorough analysis of the assertions made within these dissents. We felt this was particularly important in light of the modest rulemaking these rules represent, and the limited transparency provided to investors relative to their long-standing calls for greater transparency.

Overall, we support the Final Rule but are disappointed by the removal of key engagement level metrics, and we believe this rule remains only a very modest first start at enhancing the long-sought transparency for investors.

³ 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](#)

⁴ See PCAOB Board Member Ho’s Statement of Dissent to Firm & Engagement Metrics Final Rule at: [Statement on the Firm & Engagement Metrics Adopting Release - Will This Unusually Rushed Auditing Standard Suffer the Same Fate of the Auditing Standard 2? | PCAOB](#)

⁵ 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](#)

**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
Our response last week to the SEC’s Notice of Firm Reporting 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 “Proposed Rule” or “Firm Reporting Proposed Rule”) each provide an extensive discussion of our historical support for, and the demonstration of the need for, greater transparency from the audit profession such that investors can execute their stewardship responsibilities. In our comment letter to the Firm and Engagement Metrics Proposed Rule we highlighted how little information – including illustrative examples – investors have to make these decisions.

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 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 (i.e., audit is a credence good) necessitate transparency such that there is better accountability throughout the process.

Investors need the information outlined in the Firm and Engagement Metrics and Firm Reporting Final Rules to execute their stewardship responsibilities (i.e., voting for audit committee members and ratification of the auditor) and a system of accountability to the auditor’s client (i.e., investors).

Investors cannot have evidenced based trust in the audit profession without greater transparency and such trust is foundational to capital markets and capital formation. In the words of Ronald Reagan, investors must “trust, but verify.”

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

In both our comment letter related to the SEC Notice on Proposed Final Rule on Firm Reporting and in our comment letter on the Firm and Engagement Metrics Proposed Rule, we explain why this lack of transparency in the audit market creates herding behavior and concentration – an oligopoly – in the audit market. See Investor Support for Firm and Engagement Metrics section of this letter for discussion of what investors rely upon in considering the quality of the audit⁶.

While the AICPA and the Dissenting Board Member argue – even after the PCAOB has scaled back the requirements for smaller firms – in responses to both the Firm Reporting and Firm and Engagement Metrics Final Rule that additional transparency will be burdensome to smaller firms, 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.

⁶ Specifically, see Page 9 (Slide 3) of the Center for Audit (“CAQ”) Committee Survey and Page 24 (Slide 18) of the CAQ Investor Survey at:
[caq_supplemental_comment_letter_to_pcaob_firm_and_engagement_metrics_survey_data_2024-08](#)

THE FALSE NARRATIVE REGARDING RUSHED, MIDNIGHT RULEMAKING

The PCAOB Dissenting Board Member asserts that the Firm Reporting and the Firm and Engagement Metrics Final Rules are “midnight rulemaking” stating:

Firm Reporting⁷

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.

Firm and Engagement Metrics⁸

- *Never in the history of the PCAOB has the Board rushed to adopt new standards and rules in the middle of a historic transition to new SEC leadership, let alone adopt standards and rules that are not ready.*
- *But conducting such a pilot would take time, and while the PCAOB states that it is committed to getting its adopting releases right, actions speak louder than words and this midnight rulemaking demonstrates the hollowness of the PCAOB’s rhetoric.* This hollow rhetoric carries over to the economic analysis’ repudiation of a pilot because of a so-called limited participation problem, especially since there is a simple solution.
- *Capacity is an important factor that the PCAOB has not seriously considered as part of its most ambitious standard-setting and now midnight rulemaking agenda in PCAOB history.*

The narrative of “rushed, midnight rulemaking” is inconsistent with the facts – as the history of the project below highlights.

Greater Transparency by Audit Firms Has Been Sought by Investors for At Least Two Decades The 2008 Advisory Committee on the Auditing Profession Final Report

For at least two decades investors have sought greater transparency from and about the audit and audit firms. [Our response](#) to the SEC Notice on Proposed Final Rule on Firm Reporting highlights the relevant excerpts relating to greater transparency coming from the [Advisory Committee on the Auditing Profession Final Report](#) (“ACAP Report” or “ACAP Final Report”) including the following recommendations directly related to firm and engagement reporting metrics:

- ***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.

⁷ 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](#)

⁸ See PCAOB Board Member Ho’s Statement of Dissent to Firm & Engagement Metrics Final Rule at: [Statement on the Firm & Engagement Metrics Adopting Release - Will This Unusually Rushed Auditing Standard Suffer the Same Fate of the Auditing Standard ? | PCAOB](#)

What the above citations highlight is that the Proposed Rule is not some sort of last-minute idea or midnight rulemaking but a topic of discussion which began nearly two decades ago.

The 2015 Concept Release

More curious is that throughout the Dissenting Board Member's statement there is no mention of the [PCAOB's July 2015 Concept Release](#) related to this project which proposed 28 metrics – rather than the 11 in the Proposed Rule and 8 in the Final Rule. A summary of those 28 metrics is presented in the **Appendix**. We highlight there that all the metrics in the Proposed Rule, and ultimately, the Final Rule were included in that 2015 Concept Release.

The Docket 41 Project Page also highlights all of the times the project has been discussed with the PCAOB's advisory groups in 2015, 2017, 2022 and 2023.

Additionally, in 2015 the [PCAOB's own Investor Advisory Group prepared a report](#) on the status of the [2008 ACAP Final Report](#).

Never mentioned in the dissents reference to midnight rulemaking is the 2015 Concept Release and all the discussion and debate which proceeded the release of the Proposed Rule in April 2024. Specifically, the scaling down of the metrics from 28 to 8 is never noted. Nor is that fact that all the metrics in the Proposed Rule, and ultimately, the Final Rule were included in that 2015 Concept Release.

The Numbering of the Docket Highlights the Standard Has a Long History

Most obviously, the number of the docket related to this Firm and Engagement Metrics Final Rule is Docket 41 – which given the PCAOB is up to at least Docket 56 – highlights this Final Rule has been long in the making.

Consideration of These Metrics in Other Jurisdictions

We also note in the Final Rule, the PCAOB staff has rightly highlighted the discussion and adoption of these types of metrics in other jurisdictions in Section II.B (Actions in Other Jurisdictions) on Pages 24 to 26 of the Final Rule. This is never highlighted in the dissent.

Comparison To Fate of AS 2:

A Comparison Not Based Upon Substance of The Rulemakings, But the Number of Days It Took to Create the Rules

The Dissenting Board Member implies – through the title to the dissent – that the Final Rule will suffer the same fate – revision and replacement – as Auditing Standard 2, [An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements](#), issued in 2004 which was replaced in 2007 by Auditing Standard 5, [An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements](#).

At the outset of the statement, the Dissenting Board Member states:

The Firm and Engagement Metrics was proposed on April 9, 2024, and we received 46 comment letters. If adopted today, it will set the record for this Board as the fastest adopted standard which only took 226 days (7.5 months).

The average number of days from proposal to adoption for the five standards adopted by this Board to date was 448 days (15 months), with an average of 32 comment letters.



Essentially, although the Firm and Engagement Metrics proposal has over 40% more comment letters than the average of 32, it took half as much time as the other standards adopted by this Board.

Political expediency is not evidence-based policymaking. Haste naturally harms work product quality, which will not escape any keen eyes.

The body of the dissent, however, never mentions AS2. Only in a question to the Chief Auditor is AS2 mentioned where the Dissenting Board Member says:

Ms. Vanich:

1. Are you aware of any proposals adopted by PCAOB Board in less than 226 days?

I have analyzed our rulemaking docket data. The only proposal with more than 40 comments adopted was AS2. It was adopted in 153 days and then it had to be amended three years later after a disastrous rollout and public outcry.

There the Dissenting Board Member asks how many days were spent in the development of the AS 2 rulemaking (153 days) and implies, by way of the question and reference to AS2, that the days associated with this Final Rule which she provides as (226 days) was too short and by inference implies that the Final Rule will likely suffer the same fate as AS2.

What the Dissenting Board Member does not highlight is that this rulemaking started several years before the issuance of the 2015 Concept Release and that the Final Rule has actually been in the making for well over a decade (i.e., greater than 3,650 days) as compared to AS2's 150 days.

No discussion or articulation of the nature and substance of AS2 versus the nature and substance of this Final Rule – or any discussion of the challenges in adopting AS2 versus any potential challenges with this Final Rule are presented.

The comparison of the number of days is insufficient as it misses important details:

- AS2 dealt with the audit of internal controls over financial reporting, which is highly subjective and judgement based. This Firm and Engagement Final Rule, on the other hand, deals with eight metrics which are discrete, objective and require substantially less judgement.
- The AS2 standard was issued in 2004 – just 18-24 months after the creation of the PCAOB under the 2002 Sarbanes-Oxley Act (“SOX Act”) and was a first-time standard needed to be responsive to the first-time requirements of the 2002 SOX Act.
- The 2002 SOX Act only took six months (180-days) to develop and has lasted 22 years.

Overall, the analogy is not compelling as it seems based upon time to create, not on the substance of the rule, or its application. The analogy appears exaggerated to fit the rushed, midnight rulemaking narrative and a political statement regarding the PCAOB's actions and overreach.

Consideration of Proposed Rule Comment Letter Responses

Dissenting Board Member Assertions Regarding Consideration of Proposed Rule Comment Letter Responses

As we noted above, at the outset of the Dissenting Board Member's statement she states:

The Firm and Engagement Metrics was proposed on April 9, 2024, and we received 46 comment letters. If adopted today, it will set the record for this Board as the fastest adopted standard which only took 226 days (7.5 months).

The average number of days from proposal to adoption for the five standards adopted by this Board to date was 448 days (15 months), with an average of 32 comment letters.

Essentially, although the Firm and Engagement Metrics proposal has over 40% more comment letters than the average of 32, it took half as much time as the other standards adopted by this Board.

Political expediency is not evidence-based policymaking. Haste naturally harms work product quality, which will not escape any keen eyes.

In addition to asserting the Final Rule is the product of rushed, midnight rulemaking – as we rebut above – the Dissenting Board Member asserts the comment period was too short and that stakeholder feedback was not appropriately considered given the unusually high number of comment letters received relative to the Proposed Rule.

The Dissenting Board Member also asserts that the Board should be compelled to decide its rulemaking based upon the majority view expressed in the comment letters received.

Analysis of Respondents to the Proposed Rule

As we did for the Firm Reporting Final Rule, we consider the facts regarding the responses to the Proposed Rule so as to contextualize the aforementioned arguments relative to the contents of the Final Rule.

The PCAOB Dissenting Board Member, as shown above, dissents from the issuance of the Final Rule because she asserts the rule was rushed and the comments of stakeholders were not considered – particularly given the number of comment letters received relative to the average number of comment letters received on proposed rules generally.

There were, in fact, 46 comment letters received on the Proposed Rule but the Dissenting Board Member fails to note there was a concept release on this rule – something not done for all rules – and that the 2015 Concept Release actually received 50 comment letters – which the PCAOB has had a decade to consider.

The breakdown of comment letters related to the 2024 Proposed Rule relative to the 2015 Concept Release are noted in the chart which follows.

Category	2024		2015	
	# of Letters	# of Pages	# of Letters	# of Pages
Academic	3	57	4	37
Audit Committee Member	0	0	1	1
Audit Committee	0	0	1	4
Audit Committee Advocates	2	7	2	6
Large Firm	4	165	4	24
Medium Firm	3	40	3	19
Small Firm	8	71	4	21
Audit Firm Advocates	6	86	1	7
Auditor Advocates	7	47	11	112
Investors	6	98	5	33
Preparer	0	0	1	4
Preparer Advocate	1	24	2	6
Regulator	0	0	3	17
Individual	2	10	6	72
Other	4	39	1	6
Withdrawn	0	0	1	0
Totals	46	644	50	369

Note: Audit committee advocates (e.g., Tapestry); audit firm advocates (e.g., CAQ, AICPA); auditor advocates (e.g., CPA societies, TX, PA, IL) and preparer advocates (e.g., Chamber of Commerce) are those not serving directly on audit committees, working at audit firms, or not registrants preparing financial statements subject to audit.⁹

The assertion that the rule has exceeded the average number of comment letters – and therefore the rulemaking process could not have analyzed and assimilated the comments – fails to recognize several important contextualizing factors:

- There had already been a Concept Release on the Final Rule 10 years ago. It included all the metrics included in the Proposed Rule.
- The Concept Release received an even greater number of comment letters (50) than the Proposed Rule.
- The Concept Release received responses from a broad array of stakeholders who might hold different views.
- The corresponding Firm Reporting Rule received 37 comment letters.
- The vast majority (61%) of the comments received (64% of the pages) were from those objecting to the proposal. Those comments came from the audit firms (33%) (43% of the pages) which would be subject to the regulation, and the audit firm advocates (28%) (21% of the pages) working on their behalf. These letters generally assert the same objections.
- Approximately 15% of the comment letters and pages received were from six investors.
- Only one preparer advocate (i.e., Chamber of Commerce) issued a letter which was 4-6% of the comment letters and pages received.
- Unlike the 2015 Concept Release, no public company issuers (i.e., preparers) filed letters.
- Only two (4%) of comment letters came from audit committee advocates – totaling 7 pages (1%) of the comments received.
- Unlike the 2015 Concept Release, no audit committee members or audit committees filed letters.
- There were three comment letters (7%) comprising 57 pages (9%) which were submitted by academics.

⁹ See discussion regarding advocates on Page 43 of [our response](#) the [SEC's Notice on Firm Reporting](#)

- Six letters came from individuals and others (13%) and comprised 49 pages (7%) for review.
- Review of the Final Rule shows the PCAOB staff included over 125 pages analyzing the comments received. The Discussion of the Final Rule on Pages 26 through 154 in Section III in the Firm and Engagement Metrics Final Rule does an excellent job of analyzing the comments and the impact on the decision-making of the Board and the Final Rule. As such, it's hard to argue that the comments were not considered.
- As we considered the comments received, the arguments against the Proposed Rule which were made were traditional in nature – a topic we address below.
- An analysis of the Final Rule as we have done below shows the PCAOB substantially reduced the number of metrics at both the firm level (from 11 to 8, leaving only 7 of those originally proposed) and engagement level (from 9 to 6, leaving only 5 of those originally proposed). These reductions reflect a consideration of feedback of the firms – not investors.

The Dissenting Board Member Believes PCAOB Should Make Decisions Based Upon Majority of Comment Letters Received – Those from Auditors – Not Its Investor Protection Mandate

The vast majority (61%) of the comments received – those objecting to the proposal – came from the audit firms (33%) which would be subject to the regulation and the audit firm advocates (28%) working on their behalf and include traditional/routine objections.

The Dissenting Board Member asserts that the PCAOB, in going forward with the issuance of the Final Rule, has not taken stakeholder comments seriously given that 70% expressed concern and do not support the proposed engagement-level metrics. Specifically, the Dissenting Board Member says:

However, I am not convinced that PCAOB has taken comments from key stakeholders as seriously as it should since the majority of the commenters do not support the proposed metrics. In my analysis of the overall sentiment of comment letters, over 70% of commenters expressed concern. For example, many commenters expressed their opposition to the engagement level metrics and related public reporting. Yet despite this opposition, this adopting release includes six engagement level metrics.

The Dissenting Board Member, via this comment, is asserting PCAOB rulemaking should be a democracy based upon a simple tallying of the number of comment letters received. 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.

Interestingly, the Dissenting Board Member did not tally the support for the engagement-level metrics from the 100 investors in the Center for Audit Quality (“CAQ”) (i.e., advocates for the auditing profession) survey (the “CAQ Investor Survey”).¹⁰

Such consideration would have substantially reduced the 70% cited above – flipping the majority to support for, rather than opposition to, the Proposed Rule. We highlight this in the Investor Support for Firm and Engagement Metrics section which follows.

¹⁰ See Pages 20-38 of the CAQ Investor Survey at: [caq_supplemental_comment_letter_to_pcaob_firm_and_engagement_metrics_survey_data_2024-08](#). See specifically the question regarding engagement-level metrics on Page 27 (Slide 21).

This perspective also fails to recognize that the PCAOB’s mission is to protect investors – not decide rulemaking based upon the number of comment letters received from the auditing profession who is incentivized to oppose to any rulemaking. It also fails to recognize the PCAOB is funded by an assessment of investors – not taxpayers or the audit firms – as they are the owners of the public companies paying the assessment.

Further, the Dissenting Board Member fails to recognize the extensive analysis of the comment letters (Pages 26 through 154 in Section III (Discussion of the Final Rules)), nor acknowledge the significant reduction in both the firm and engagement level metrics in moving from the Proposed to the Final Rule – let alone from the 28 in the 2015 Concept Release.

No Comment Letters Submitted by Public Company Issuers or Audit Committee Members: No Significant Movement to Object to the Proposed Rule

No Real Preparers or Audit Committee Members Responded – It is important to note that no “real public companies” nor any “real audit committees/audit committee members” commented in objection to the proposal – something they did related to the NOCLAR proposal and something they did related to the 2015 Concept Release as one can see from the chart above.

If there was significant opposition to the disclosure of engagement-level metrics – metrics directly related to the companies they are associated with – as the Dissenting Board Member asserts above, there would have been more response and public outcry like there was related to NOCLAR. For example, the National Association of Corporate Directors did not issue a comment letter. As such, it is fair to conclude that neither preparers nor audit committees were significantly opposed to the Proposed Rule.

Basis for Dissent is a Survey of Audit Committee Members Done by the Auditing Profession –

The Dissenting Board Member does not cite the limited response to the Proposed Rule by audit committees or audit committee members or preparers directly in her statement. Rather, like the Firm Reporting Rule, the Dissenting Board Member in her statement leans nearly entirely on a survey of audit committee members done by the audit profession (the “CAQ Audit Committee Survey”¹¹) when reaching the conclusion that audit committees don’t support the rule. In the dissent she cites various nuggets from that CAQ Audit Committee Survey – without noting directly that the survey was performed by the auditing profession, rather than those charge with advocating for audit committees – including the following:¹²

- A commenter conducted an Audit Committee Survey that cited
 - “73% of audit committee members surveyed **state there are potential challenges and limitations in interpreting proposed metrics, particularly in relation to measuring audit quality**” (Slide 11) and
 - “82% cite concerns about data specific to their audit being publicly available.” (Slide 11)
- PCAOB points to audit committees and investors as the targeted users of these metrics. A commenter’s Audit Committee Survey cited that “[a]udit committee members surveyed largely indicated they currently have the information they need today.” Specifically, this survey found that:
 - “95% of audit committee members surveyed say **the information available to them to fulfill their external auditor oversight responsibilities meets most to all their needs.**” (Slide 4)

¹¹ See Pages 7-19 of the CAQ Audit Committee Survey at: [caq_supplemental comment letter to pcaob_firm and engagement metrics_survey_data_2024-08](#).

¹² Slide numbers referenced below have been added for ease of reference. See Pages 7-19 of the CAQ Audit Committee Survey at: [caq_supplemental comment letter to pcaob_firm and engagement metrics_survey_data_2024-08](#).



- “78% of audit committee members surveyed are concerned that **mandated public disclosure of engagement-level performance metrics, including issuer name, could lead to unintended consequences and should be voluntary.**” (Slide 6)
- “80% of audit committee members surveyed rarely or never use PCAOB Form AP or are **unfamiliar with it.**” (Slide 7)
- “78% of audit committee members rarely or never use the PCAOB’s Registered Firms website or are unfamiliar with it.” (Slide 8)

[Review of the CAQ Audit Committee Survey and Comparison to CAQ Investors Survey Reveals Additional Information & Insights Not Included in Dissent](#)

CAQ Investor Survey Reveals Investors Review Form AP and Registered Firm Website, But Audit Committees, Those Charge with Protecting Investors Do Not – Interestingly, the Dissenting Board Member does not compare these CAQ Audit Committee Survey responses to those of the CAQ Investor Survey. The results are very different and what they tell us is that audit committee members are not looking at the information investors consider relevant. Consider the following: 79% of investors (Slide 24) indicate they use Form AP and 82% of investors (Slide 25) indicate they use the registered firm website. The exact opposite is true of audit committee members where 80% (Slide 7) indicate they rarely or ever use Form AP and 78% (Slide 6) indicate they are unfamiliar with the registered firm website.

Form AP and the new Form FM is where the firm and engagement metrics – the subject of this Final Rule – will be disclosed and provided for public analysis and the registered firm website is where the information subject to the Firm Reporting Rule will be disclosed. So, investors are looking at the data currently provided and will continue to analyze any additional data provided.

CAQ Audit Committee Survey Reveals Audit Committee Members Do Seek Additional Information: A Fact Omitted from the Dissent – Additionally, while indicating that 95% (Slide 4) of audit committee members indicated they currently have the information they need today, only 59% of the audit committee members indicated they have all the information they need with 36% indicating they only have most of the information they need and 5% needing much more.

Importantly, the following chart (Slide 5) showing that 66% of audit committee members want more information was omitted by the Dissenting Board Member – including:

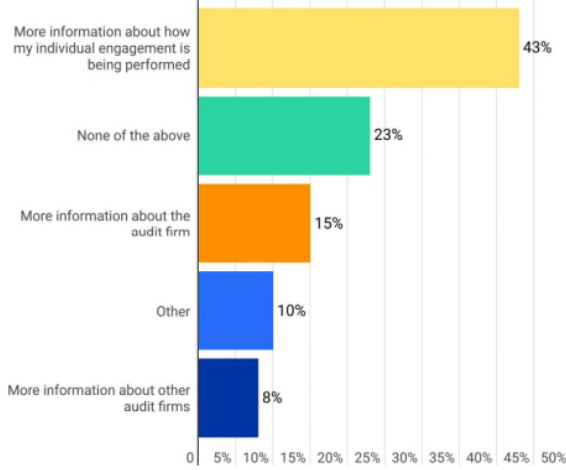
- 43% seeking more information on the audit engagement being performed;
- 15% asking for more information about the audit firm; and
- 8% wanting more comparative information about other firms.

When asked what additional information they wanted about the firm, items such as partner and manager involvement; industry experience; audit experience, and audit hours incurred on risk areas – items included in the Proposed Rule – were noted. That chart (Slide 5) follows.



43% of audit committees seek more information on their company’s engagement. Details on partner engagement, auditor judgment identified most frequently.

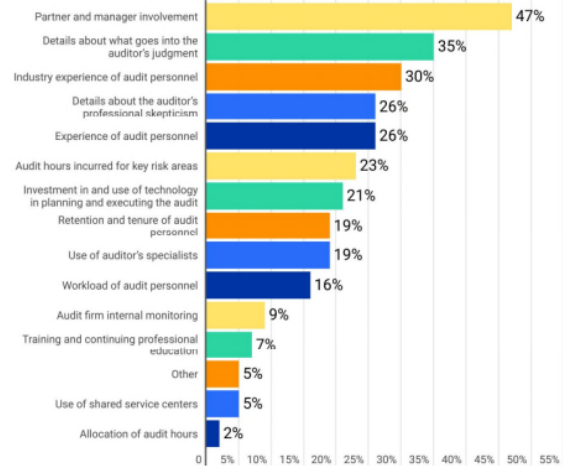
What are the top three areas in which you want additional information about your individual audit engagement(s)? N = 99 (respondents who did not answer information meets "all" of my needs in prior question)



CAQ

Source: CAQ Audit Committee Survey

What are the top three areas in which you want additional information about the firm? N = 43 (respondents who answered "more information about how my individual engagement is being performed" in prior question)



Slide 5

[Audit Committee Members Are Not Worried About Public Disclosure of Metrics Impacting Their Personal Liability: A Finding Omitted from the Dissent](#) – The other items quoted above – where it is noted that audit committees’ expressed concerns about public disclosure of the information – were taken from Slides 6 and 11 of the CAQ Audit Committee Survey, but on that same slide (Slide 11) a majority, 60% of respondents noted they are not concerned that public reporting of firm and engagement metrics will increase director liability – a statistic omitted from the above. This response indicates they don’t have a high degree of concern regarding public disclosure – given they are not worried about their personal liability resulting from such disclosure.

[Audit Committee Members Indicate Reputation, Rather than Data, is Heavily Relied Upon in Assessing the Auditor’s Work](#) – Also important to note is that 75% (Slide 3) of audit committee members rely on the reputation of the audit firm when evaluating the quality and reliability of the financial statements. This highlights our earlier comment regarding herding behaviour and perception rather than data or evidenced based decision-making is driving auditor decision-making by audit committee members.

[PCAOB Dissenting Board Member Indicates Audit Committee’s Oppose Metrics but Argued in Earlier Dissent That Audit Committees Were Outside of PCAOB Mission](#) – What the Dissenting Board Member does not indicate in the dissent – as she does in the Firm Reporting Rule dissent – is that she believes audit committee needs are outside of the PCAOB’s mission. She makes this assertion in the Firm Reporting dissent, but then cites the CAQ Audit Committee Survey – as she does here – because she opposes the Final Rule. We discuss this argument extensively on Page 33-37 of [our comment letter](#) related to the SEC Notice on Firm Reporting.¹³

¹³ We excerpt from that letter below:

Audit Committee Information Needs Are Outside the PCAOB’s Mission

[Audit Committee Members Need to Begin Considering Information Investors Find Relevant](#) –

What’s interesting about that CAQ Audit Committee survey is that it is followed by a survey of investors (i.e., the CAQ Investor Survey) which shows support for the Firm and Engagement Metrics Proposed Rule. A comparison of the CAQ Audit Committee Survey and the CAQ Investor Survey highlights that audit committee members are behind and out of lock step with investor views. The real message is that audit committees need to enhance their efforts and work to support investors – those they are meant to protect.

[Comparison of Survey Highlights Information Asymmetry and Need for Greater Transparency](#) –

Additionally, the citation of audit committee members views fails to recognize that they have access to different information than investors, that audit committee members don’t talk with investors, and that the objective of the proposal is greater investor protection to make audit committees more accountable to investors – as the comparison of the surveys above highlight is in need of improvement.

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)¹³ 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 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.

Investors Supported the Proposed Rule

The majority of investors supported the Proposed Rule. The PCAOB Dissenting Board Member makes no reference to the investor letters received in support of the Proposed Rule – including that of the PCAOB’s own Investor Advisory Group. The Dissenting Board Member did not cite CFA Institute’s comment letter nor its survey results.

The Dissenting Board Member did cite nuggets from the CAQ Investor Survey¹⁴ (i.e., advocates for the auditing profession), but only those which she believed were in support of her dissent and not the vast majority of responses which support the disclosures of additional information, including related to firm and engagement metrics – though the audit profession advocated against their investor clients obtaining such information.

Interestingly – as we highlight above – the Dissenting Board Member did not tally the support from 100 investors in the CAQ Investor Survey cited in her dissent and addressed in more detail below. This would have substantially reduced the 70% cited above – flipping it from opposition to, to support for, the Proposed Rule.

In the section which follows we highlight in more detail investor support for the Firm and Engagement Metrics Proposed and Final Rule.

Traditional Arguments Against Transparency Emerge

The Discussion of the Final Rules on Pages 26 through 154 in Section III in the Firm and Engagement Metrics Final Rule does an excellent job of analyzing the comments received on the Proposed Rule and the impact on the decision-making of the Board and the Final Rule.

Many of the audit firm objections to the Proposed Rule include 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.

We hear these routinely. For example, in advance of the 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 investor 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.

In fact, in our comment letter on the Firm and Engagement Metrics Proposed Rule we included a citation from the founder of Vanguard, Jack Bogle which says:

*Here, I take the liberty of expressing my strong reservation that **the (theoretically wonderful) requirement that a “cost-benefit analysis,” a requirement of federal regulators since 1993, is the***

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](#)



paragon of common sense. In my experience, cost is usually within the realm of calculation; benefits too often are not.

We were pleased to see the PCAOB Staff recognize – on Page 7 of the Final Rule – the overstated detriments of rulemaking rarely emerge.

We also note that similar objections—that the new information would not be used or would be confusing or misleading—were raised by many of the same commenters in connection with our last two rulemakings requiring disclosure of additional information about audits and auditors: Form AP reporting of the name of the engagement partner and information about other firms participating in the audit, and auditor communication of critical audit matters (“CAMs”). In both cases, these commenter concerns appear unsubstantiated.

The Form AP data set is now one of the most frequently visited areas of our website. As for CAMs, while academic studies have shown mixed results about the impact of CAMs, in a recent investor survey conducted by a firm-related group, over 90% of the respondents indicated that CAMs play an important role in their investment decision-making.

In addition, data aggregators, such as Audit Analytics, compile and make available data on CAMs, which suggests market demand for that information. Our experience therefore suggests that, contrary to concerns about irrelevance and information overload, stakeholders seek out additional information about auditors and audit engagements when it is available.

Additionally, in [our comment letter](#) on the Firm Reporting Final Rule, we noted the emergence of several additional troubling themes/narratives in the comments and dissenting views. We will not repeat these here but would refer you to Page 16 of that letter.¹⁵ We would draw your attention to the belief that the PCAOB’s mission is audit quality and the need for any transparency provisions to have a direct link to audit quality. Neither audit quality nor what constitutes a direct link are defined.

Pilot Program: Another Reason to Delay

The Dissenting Board Member criticizes the PCAOB staff’s consideration of stakeholder comments and the economic analysis suggesting that they should have taken a stakeholder recommendation to perform a pilot test as follows:

Other commenters suggested that the PCAOB pilot test the final rules before adopting them.

However, the economic analysis dismisses this alternative on the basis that the pilot would “likely be voluntary, potentially with a limited group of participating firms, which may not be representative of all firms” and points to skewed results that would limit applicability.

¹⁵ 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. They include:

- Lack of understanding of corporate governance over the audit.
- Lack of understanding of investor stewardship responsibilities.
- 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.
- Focus on tactical audit procedures, rather than strategic considerations which impact the performance of audit procedures and delivery of audit services audit services, yet – like audit quality – the proximity or the closeness is not defined.
- Challenge to PCAOB’s statutory authority without defining how, nor recognizing the broad mandate of investor protection and the public interest.
- Failure to recognize investors, not audit committees or management, are the client.
- Multi-disciplinary audit firm structure is being used to oppose transparency and may need to be reconsidered by investors.



I am supportive of a pilot study prior to adopting this final standard, particularly with engagement level metrics, to gain more insights on what would or would not be beneficial information to investors.

But conducting such a pilot would take time, and while the PCAOB states that it is committed to getting its adopting releases right, actions speak louder than words and this midnight rulemaking demonstrates the hollowness of the PCAOB's rhetoric. This hollow rhetoric carries over to the economic analysis' repudiation of a pilot because of a so-called limited participation problem, especially since there is a simple solution. Specifically, invite a representative sample of firms to participate.

Given that commenters were the ones that suggested a pilot, I believe it's safe to assume there would be plenty of firms interested in participating.

*And how would we know if we do not even try? The results of a pilot study would provide vital insights into developing standards that have actual utility and direct connectivity to audit quality. **Instead, this standard adopts burdensome metrics that have an unproven correlation with audit quality.***

We make several observations regarding pilot testing

- If pilot testing was needed, the PCAOB had at least a decade, or two, to complete it.
- All the metrics in the Proposed and Final Rules were included in the 2015 Concept Release.
- As suggested by the Dissenting Board Member, pilot testing would be done privately, not publicly, which makes the pilot testing useless because it is the public dissemination of the metrics to investors and others which is the only way to perform a true test of their usefulness.
- The transparency reports have been a pilot testing of the firm-level metrics and it has demonstrated that the firm level metrics need guidance to make the metrics consistent and comparable over time and between firms.
- As we note below in our consideration of the changes from the Proposed to the Final Rule, there are only 8 firm-level and 6 engagement-level metrics to be disclosed and some of the most useful and controversial have been removed from the Final Rule. In substance the Final Rule, being so slimmed down from the 28 metrics in the 2015 Concept Release, result in the limited metrics being a test of the usefulness of the metrics.
- A post implementation review of the reduced number of metrics can provide any necessary insights and improvement feedback.
- Finally, the pilot testing suggestion is simply a traditional, long-used advocacy tactic to delay rulemaking.

Overall

The Dissenting Board Member's assertion that the Firm and Engagement Metrics Final Rule, was rushed, represents midnight rulemaking, needs pilot testing, did not consider stakeholder feedback appropriately, was not supported by investors (i.e., as we analyze in more detail below) are not supportable assertions and represent more of a scattergram of excuses to delay rulemaking – a traditional 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 by another decade.

As we highlight below. Investors support the disclosure of more information – transparency – such that they can execute their stewardship responsibilities.

INVESTOR SUPPORT FOR FIRM AND ENGAGEMENT METRICS

The Dissenting Board Member asserts there is insufficient support from investors for the Final Rule. However, we can see from the comment letters received this is not accurate – including in the CAQ Investor Survey which is leaned on heavily by the Dissenting Board Member.

No Reference to Majority of Investors Responding to, and Supportive of, the Proposed Rule

The Dissenting Board Member does not reference any of the comment letters received in support of the Proposed Rule from [CFA Institute](#), the [Council of Institutional Investors](#), [Colorado Public Employees' Retirement Association](#), the [PCAOB's own Investor Advisory Group](#) or a [joint letter from a group of 12 organizations](#) (e.g., AFL-CIO, American Federation of Teachers, American Federation of State, County and Municipal Employees, Better Markets, Consumer Federation of America, Americans for Financial Reform Education, Zevin Asset Management, etc.). The joint letter states:

Importance of the Proposal

Currently, when companies seek approval of the auditor, proxy statements must provide basic background information. Other than the identity of the firm, however, disclosure is mostly limited to audit fees and pre-approval policies implemented by the audit committee. There is nothing in the current required disclosure regime for proxy statements that provides shareholders with useful information concerning the quality of the audit or the audit firm. While the SEC has encouraged these types of disclosures, it has never required them. The proposed metrics would fill this gap by equipping shareholders with useful information to weigh when deciding whether or not to ratify the auditor and voting for the election of the members of the audit committee.

Disclosure of the proposed metrics would also benefit audit committees. A small number of audit committees acknowledge in their proxy statements that they use metrics most likely provided by the auditor. The precise nature of the metrics, however, is too often vague. The proposed metrics would provide audit committees with a more uniform, comparable data for assessing audit quality and the quality of the audit firm.

Additionally, while the Dissenting Board Member cites a survey of investors done by the auditing profession's Center for Audit Quality (i.e., the CAQ Investors Survey) the Dissenting Board member omits key results which indicate investor support from these investor letters. For example, a 2017 CFA Institute survey of investors – the results of which were included in [our comment letter on the Proposed Rule](#)¹⁶ – which shows firm and engagement metrics – formerly known as audit quality indicators – are at the top of the factors influencing investors perceived value of the audit and one of the top four priorities they believe investors should be working on. See the tables which follow.

¹⁶ See section entitled Investor Support for Audit Quality Indicators on Pages 4-5 of that letter.

Table 1: Factors Influencing Investors' Perceived Value of Audit

Value of Audit Factors	Respondents	1=Not imp	4=Very imp	Avg
Quality of information contained within the auditor report	211	2.4%	73.0%	3.65
Disclosure to investors of the audit quality indicators that are monitored by audit committees and/or regulators	210	3.3%	57.1%	3.48
Audit firms' communication to investors (e.g., published audit firm transparency reports)	211	4.7%	58.8%	3.40
Expanded use of data analytics and artificial intelligence while conducting audits	211	5.2%	29.9%	3.02
An expansion of the current scope of audit and assurance services	211	8.1%	30.3%	2.91
Leveraging technology, network alliances, and process efficiency to reduce the costs of conducting audits	211	10.4%	22.7%	2.77
Audit pricing that is either comparable or at a premium relative to the pricing of other advisory, certification, or quality assurance services	209	13.9%	16.7%	2.66

1=Respondents who rated the factor as "Not important"; 4= Respondents who rated the factor as "Very important"; Avg = Average rating of 1–4 score, excluding respondents who had no opinion.

Table 3: What should be the audit standard-setter and regulator priority?

Issue or Topic	Total	High Priority	Medium Priority	Low Priority	Avg Score	Rank by Avg Score
Standards for auditor independence	210	86%	10%	1%	2.88	1
Independence of the governance of audit standard-setting bodies	210	78%	17%	2%	2.78	2
Auditor consideration of noncompliance with laws and regulations	211	73%	20%	3%	2.73	3
Developing and monitoring robust audit quality indicators	209	70%	23%	2%	2.71	4
Audit standards for accounting estimates	209	68%	24%	3%	2.68	5
Going concern judgments and disclosures	211	67%	25%	4%	2.65	6
Audit standards for subsidiary audits	210	57%	30%	6%	2.56	7
Wider adoption of International Standards of Audit (ISAs)	210	52%	27%	8%	2.50	8
Ascertaining appropriate level of assurance on non-GAAP financial measures (NGFMs)	209	51%	33%	8%	2.46	9
Assurance or some other level of auditor comfort on other financial and nonfinancial information	210	44%	40%	8%	2.39	10
Mandatory rather than optional requirements for shareholder ratification of auditor appointment	209	39%	35%	15%	2.26	11
Requiring shareholder voting for audit committee members	210	40%	35%	18%	2.24	12
Assurance or some other level of auditor comfort on preliminary announcements	210	31%	46%	12%	2.21	13

Respondents had four choices: low, medium, or high priority, or no opinion. The weighted average score was determined by assigning 1 to low priority, 2 to medium priority, and 3 to high priority, and excluding respondents who had no opinion.

Selective Reference to CAQ Investor Survey Results: The Survey Demonstrates Investors Support for Firm and Engagement Transparency Information

The Dissenting Board Member references two responses to questions from the CAQ Investors Survey¹⁷, which she indicates show investors do not need additional information. The Dissenting Board Member, however, omits other questions within the CAQ Investor Survey which show investors do support and want additional information in-line with the firm and engagement-level metrics.

Sufficiency of Information – The two questions the Dissenting Board Member points to as evidence that investors do not need additional information and therefore do not support the Firm and Engagement Metrics Proposal are as follows:

- 93% of investors surveyed trust the audit of financial statements, and a little over half trust it completely (Slide 16), and
- 92% of investors surveyed feel the information available to assess the quality of the audit of a publicly traded company meets all or most of their needs (Slide 17).

She aggregates the two gradations of responses in arriving at the percentages above. Review of the survey shows:

- 53% of investors surveyed trust the audit of financial statements completely and 40% trust a great deal.
- 57% of investors surveyed feel that all of the information available to assess the quality of the audit of a publicly traded company meets their needs and 35% say it meets most of their needs.

These two citations from the survey omit important information which follows and do not indicate whether investors would like more information.

It should be noted that these questions include gradations of responses (e.g. completely and a great deal; all and most). Other questions on Slides 22, 23, 24 and 25 include gradations of the responses – an important point discussed in the questions regarding firm and engagement metrics which follow.

¹⁷ 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](#)



Investors Want More Information (Omitted from Dissent) – The Dissenting Board Member omits several related questions which follow in the CAQ Investors Survey which show that nearly half of investors 46% want to see more information about the auditing process of a public company they invest in as shown below (Slide 19) while 35% seek more transparency, and 25% want more information on the scope of the audit.

Nearly half of investors want to see more information about the auditing process of a publicly traded company they invest in or follow.

What additional information would you like to see about the audit of a publicly traded company you invest in or follow to evaluate the quality of the audit?

	Total %
Auditing process	46%
Transparency	35%
Scope of the audit	25%
Any amendments made to financial statements	24%
Team specifics	20%
Detailed report / Everything up front	18%
Risk / Investment risk	15%
Potential conflicts of interest	13%
Auditor team qualifications	13%
Previous problems or disputes with auditor team	11%
Efficiency of audit team	7%
Clear audit report	5%
Conclusion of audit	5%
Other mentions	15%
Nothing / None	17%



Q4. What additional information would you like to see about the audit of a publicly traded company you invest in or follow to evaluate the quality of the audit? Please be as specific as possible. If there is no additional information you would like to see type "none". (Base: All respondents, n=100)



Assessing Quality and Reliability of Audited Financial Statements (Omitted from Dissent) –

The Dissenting Board Member also omits a question and response (Slide 18) which shows how investors assess quality and reliability of the audited financial statements which notes that:

- 65% are making the evaluation based upon no evidence with 28% taking the quality of the audit at face value and 37% evaluating quality based upon the reputation of the audit firm. This shows the aforementioned trust is not evidenced based.
- 52% use information not produced or provided from the audit – 29% use industry reports and 23% use sell-side research.
- Only 43% use the audit opinion and only 18% use the audit committee report – the formal modes of reporting to investors at the engagement level.
- 32% make a judgement based upon the past history and outcome of the audit – another engagement level perception, rather than evidenced, based conclusion.
- 40% use firm audit quality reports and 38% use PCAOB inspection reports – which are at the firm level.

Overall, these are very general, perception not evidenced based assessments – which don't actually involve significant output from the audit, and most are firm level rather than engagement level evaluations – because of the lack of data.

The auditor's opinion, Audit Quality reports, and the reputation of the audit firm are the top ways investors evaluate the quality and reliability of the audit.

Top Ways to Evaluate Quality of Financial Statements



Q3. What are the top three ways that you evaluate the quality and reliability of the audit of financial statements of publicly traded companies you invest in or follow? Please choose up to three. (Base: All respondents, n=100)

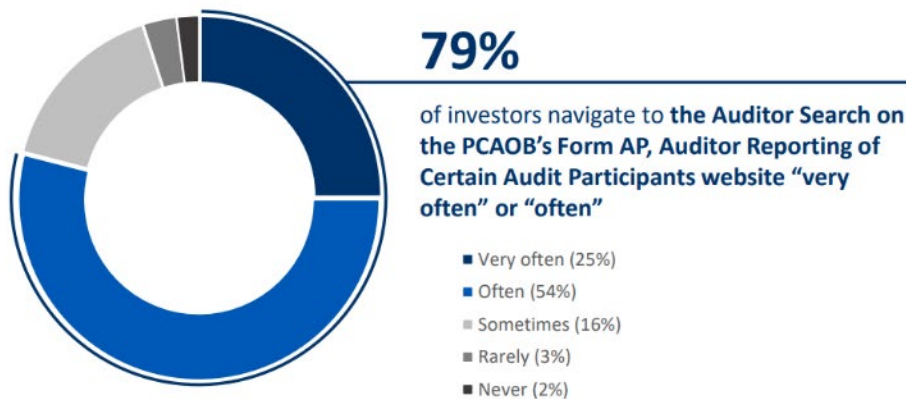
Slide 18

Investor Use of Existing Transparency Information is High (Omitted from Dissents) –

- ***Firm Reporting*** – In [our recent response](#) to the [SEC’s Notice of Firm Reporting](#) we highlighted that the Dissenting Board Member omitted in that dissent¹⁸ key questions indicating that investors are accessing and using the information related to Firm Reporting – even before the enhancements included in the Proposed or Final Firm Reporting Rules. Those questions showed that:
 - 82% of investors use the PCAOB’s Registered Firm website (Slide 25), and
 - 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 (Slide 26).
- ***Firm and Engagement Metrics*** – In this dissent, the Dissenting Board Member omits another key/pertinent question which indicates that 79% of investors (Slide 24) access Form AP.

Eight in ten investors say they often navigate to the Auditor Search tool on the PCAOB’s Form AP website.

Frequency Visiting Auditor Search



Q10. How often do you navigate to the Auditor Search on the PCAOB’s Form AP, Auditor Reporting of Certain Audit Participants website? (Base: All respondents, n=100)

Slide 24

The Firm and Engagement Metrics will be part of Form AP and a new and similar form, Form FM will house the firm level metrics.

As this survey and as the PCAOB staff notes in the Final Rule, Form AP is being accessed by investors.

As we note previously, audit committees have some catching up to do with investors on accessing this Form AP information.

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.](#)

Investors Find Firm-Level & Engagement-Level Metrics “Extremely Helpful/Useful” or are “Extremely Likely To Proactively Seek Out” the Information (Omitted from Dissent) – In the Firm Reporting Final Rule, the Dissenting Board Member does not reference charts related to investors accessing the firm reporting website of Form 2 or Form 3 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. That chart (Slide 20) is presented below.

Audit Firm-Level Metrics	Extremely...		Δ
	Helpful	Likely to Seek Out	
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

In [our comment letter](#) on the Firm Reporting Final Rule we made the following observations regarding the chart above:

- The CAQ Investor Survey 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 response options 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.

As we note above, other questions in the CAQ Investor Survey framed with similar language (e.g., Slides 16, 17, 22, 23, 24 and 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.


Review of the other questions (e.g., Slides 16, 17, 22, 23, 24 and 25) suggest that such a conclusion is reasonable.

- 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.
- Rather, 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.
- The elements queried include nearly all of the firm level metrics. The same is true of the next question on engagement-level metrics.
- 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.”

Even more importantly, a similar chart (Slide 21), presented below, regarding the usefulness of engagement-level metrics communicates the same conclusion that investors are strongly in support of the engagement-level metrics.

Audit Engagement-Level Metrics	Extremely...		Δ
	Helpful	Likely to Seek Out	
Partner experience level	50%	31%	-19
Years on the engagement of key audit team members	45%	40%	-5
Partner and manager involvement*	44%	36%	-8
Workload*	42%	45%	+3
Audit milestone completion information	41%	39%	-2
Auditor judgment	40%	36%	-4
Experience of audit personnel*	40%	42%	+2
Retention and tenure*	40%	43%	+3
Allocation of audit hours (e.g., milestones)*	38%	35%	-3
Industry experience of audit personnel*	37%	41%	+4
Use of auditor's specialists and shared service centers*	34%	42%	+8
Audit hours and risk areas*	34%	34%	-
Professional skepticism	31%	35%	+4

Q7. How useful would each of the following engagement level metrics be to you in evaluating the quality of an audit of a company you invest in or follow. / Q8. 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 21

When you consider these two preceding charts, they show investors have high conviction regarding the usefulness/helpfulness of metrics included within the Proposed Rule such as: audit firm internal monitoring; industry experience of audit personnel; quality performance ratings and compensations; experience of audit personnel; fees; partner and manager involvement; workload use of auditor specialist; and retention and tenure. ***Despite this support from investors some of these important metrics were removed from the Final Rule.***

In sum, the Dissenting Board Member uses this Center for Audit Quality (i.e., audit profession advocates) investor survey¹⁹ to indicate investors do not need or 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 the information included with the Proposed Rule.

This CAQ Investor Survey supports the comment letters received from investors, but not cited by, the Dissenting Board Member as noted above.

Need for Updating of Auditing Standards (Omitted from the Dissent) – We also note the CAQ Investor Survey queried whether the audit standards were sufficient (Slide 29). Results showed that:

- Only 26% indicate PCAOB standards are well suited for their intended purpose.
 - 26% indicate that PCAOB standards have not kept pace with change and require an ambitious standard setting agenda.
 - 42% say that they have mostly kept pace with change but require updating.
 - Collectively, 68% believe some degree of change/improvement is needed.
- The following question (Slide 30) asked what the top three standards are needing updating. The top three standards selected were audit quality control, NOCLAR and the auditors reporting model. Two of the three have been on this Board's agenda.

Bottom Line: our view, the Dissenting Board Member has excluded important findings from and inaccurately interpreted the CAQ Investor Survey results. The audit profession has confirmed and validated CFA Institute's long held, and advocated for, views on greater transparency brought about by disclosure of such metrics.

¹⁹ 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](#)

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

Tabular Comparison of the Metrics in the Proposed and Final Rule

While we note the PCAOB has provided a summary description of the revised metrics in the Final Rule on Page 4 – and that the actual rules being created appear in detail in Appendices 1, 2 and 3 to the Final Rule – a marked version of the changes from the Proposed Rule to the Final Rule is not provided nor is a tabular comparison of the proposed versus the final metrics. We created such a tabular presentation which is presented below and analyzed in the following section.

PROPOSED RULE METRICS			FINAL RULE METRICS			OBSERVATIONS
Description of Metric	Firm Level	Engagement Level	Description of Metric	Firm Level	Engagement Level	
Partner and Manager Involvement. Hours worked by senior professionals relative to more junior staff across the firm's issuer engagements and on the engagement.	X	X	Partner and Manager Involvement. Hours worked by senior professionals relative to more junior staff across the firm's large accelerated and accelerated filer engagements and on the specific engagement.	X	X	Only hours worked on large accelerated and accelerated filer engagements is required in the Final Rule in comparison to across all the firms issuer engagements in the Proposed Rule. Substantively, the metric has been scaled down to only large engagements.
Workload. Average weekly hours worked on a quarterly basis by engagement partners and by other partners, managers, and staff , including time attributable to engagements, administrative duties, and all other matters.	X	X	Workload. For senior professionals who incurred hours on large accelerated or accelerated filer engagements, average weekly hours worked on a quarterly basis, including time attributable to all engagements, administrative tasks, training, and all other matters.	X	X	Only senior professionals who incurred hours on large accelerated and accelerated filer engagements are required to report average weekly hours. The metric has been scaled down to only large engagements from all engagements and to only senior professionals rather than partners, managers and staff.
Audit Resources – Use of Auditor's Specialists and Shared Service Centers. Percentage of issuer engagements that used specialists and shared service centers at the firm level and hours provided by specialists and shared service centers at the engagement level.	X	X				Removed.
			Training Hours for Audit Personnel. Average annual training hours for partners, managers, and staff of the firm, combined, across the firm and on the engagement.	X	X	Added.
Experience of Audit Personnel. Average number of years worked at a public accounting firm (whether or not PCAOB-registered) by senior professionals across the firm and on the engagement.	X	X	Experience of Audit Personnel. Average number of years worked at a public accounting firm (whether or not PCAOB-registered) by senior professionals across the firm and on the engagement.	X	X	No Change.
Industry Experience of Audit Personnel. Average years of experience of senior professionals in key industries audited by the firm at the firm level and the audited company's primary industry at the engagement level.	X	X	Industry Experience. Average years of career experience of senior professionals in key industries audited by the firm at the firm level and the audited company's primary industry at the engagement level.	X	X	Career experience was included in Final Rule rather than experience.
Retention and Tenure. Continuity of senior professionals (through departures, reassignments, etc.) across the firm and on the engagement.	X	X	Retention of Audit Personnel (firm-level only). Continuity of senior professionals (through departures, reassignments, etc.) across the firm.	X		Engagement level metric has been removed. The title now no longer includes tenure. The language of the requirement has not changed other than removal of the engagement level metric.
Audit Hours and Risk Areas (engagement-level only). Hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours.		X				Removed.
Allocation of Audit Hours. Percentage of hours incurred prior to and following an issuer's year-end across the firm's issuer engagements and on the engagement.	X	X	Allocation of Audit Hours. Percentage of hours incurred prior to and following an issuer's year-end across the firm's large accelerated and accelerated filer engagements and on the specific engagement.	X	X	Only the percentage of hours on large accelerated and accelerated filer engagements is required in the Final Rule in comparison to across all the firms issuer engagements in the Proposed Rule. Substantively, the metric has been scaled down to only large engagements.
Quality Performance Ratings and Compensation (firm-level only). Relative changes in partner compensation (as a percentage of adjustment for the highest rated group) between groups of partners based on internal quality performance ratings.	X					Removed.
Audit Firms' Internal Monitoring. Percentage of issuer engagements subject to internal monitoring and the percentage with engagement deficiencies at the firm level; whether the engagement was selected for monitoring and, if so, whether there were engagement deficiencies and the nature of such engagement deficiencies at the engagement level.	X	X				Removed.
Restatement History (firm-level only). Restatements of financial statements and management reports on ICFR that were audited by the firm over the past five years .	X		Restatement History (firm-level only). Restatements of financial statements and management reports on internal control over financial reporting ("ICFR") that were audited by the firm over the past three years .	X		The reporting period has been reduced from five to three years.

Analysis of the Changes

Metrics Removed

The items noted in red in the chart above were eliminated from the Final Rule. This included the removal of three metrics at the firm level and four at the engagement level. The net result is that only 7 of the original 11 firm-level and 5 of the original 9 engagement-level metrics have been retained. The metrics removed include the following:

Metrics Related to Risk Areas and Use of Specialists & Shared Service Centers

1. Audit Resources – Use of Auditor’s Specialists and Shared Service Centers. Percentage of issuer engagements that used specialists and shared service centers at the firm level and hours provided by specialists and shared service centers at the engagement level.
2. Audit Hours and Risk Areas (engagement-level only). Hours spent by senior professionals on significant risks, critical accounting policies, and critical accounting estimates relative to total audit hours.

The removal of the metrics related to Risk Areas and Use of Specialists & Shared Service Centers represents a substantial reduction in the usefulness of the metrics as these metrics would have provided investors with insight into the proportion of audit time devoted to the risk areas – those which should correlate with the critical audit matters articulated in the audit opinion – and enabling investors to understand how much time was devoted to the most risky and important audit areas. Further, the removal of the amount of time on the audit where activities are outsourced to service centers will eliminate disclosure regarding the proportion of the investee company audit (and audits at the firm level) that are not under the direct supervision of the audit partner.

Metrics Related to the Quality and Risk of The Audit

3. Quality Performance Ratings and Compensation (firm-level only). Relative changes in partner compensation (as a percentage of adjustment for the highest rated group) between groups of partners based on internal quality performance ratings.
4. Audit Firms’ Internal Monitoring. Percentage of issuer engagements subject to internal monitoring and the percentage with engagement deficiencies at the firm level; whether the engagement was selected for monitoring and, if so, whether there were engagement deficiencies and the nature of such engagement deficiencies at the engagement level.

The removal of the metrics related to the Quality and Risk of the Audit also represents a substantial reduction in the usefulness of the metrics to investors.

Most importantly the elimination of the metric related to Audit Firms Internal Monitoring would eliminate disclosures of issuer engagements subject to internal monitoring and the percentage – at the firm level – of such issuer engagement with engagement deficiencies as well as information regarding whether the engagement (i.e., investee company) was selected for monitoring and, if so, whether there were engagement deficiencies and the nature of such engagement deficiencies at the engagement level. ***This metric would have provided the greatest indicator and direct link to audit quality for investors.***

Additionally, removal of the Quality Performance Ratings and Compensation rating changes would eliminate an indicator regarding whether partner compensation is altered based upon audit quality. This too would show a direct link to audit quality.

Metrics Related to Retention of the Personnel

5. Retention and Tenure – Continuity of senior professionals (through departures, reassignments, etc.) across the firm and on the engagement.

Also removed at the engagement, but not the firm level, is disclosure of the continuity of senior staff at the engagement level. This too is a significant reduction in the quality of the metrics overall, because high senior staff engagement-level turnover (i.e., staff not returning to the engagement each year) is an audit risk as there is less continuity of knowledge on the engagement.

Metrics Scaled Back

In addition to removal of the five metrics highlighted above, there has been a scaling back of several metrics to only large accelerated or accelerated filers or as it relates to firm level restatements only a three-year history. We are not concerned with the reduction from three to five years on the periods presented relate to the firm level restatement history as that pattern can be built over time as shown below:

Reduction in Applicability of Metrics to Large Accelerated or Accelerated Filer Engagements

1. Partner and Manager Involvement – Hours worked by senior professionals relative to more junior staff [across the firm’s large accelerated and accelerated filer engagements](#) and on the [specific engagement](#).
2. Workload – For [senior professionals who incurred hours on large accelerated or accelerated filer engagements](#), average weekly hours worked on a quarterly basis, including time attributable to [all engagements](#), administrative [tasks](#), [training](#), and all other matters.
3. Allocation of Audit Hours – Percentage of hours incurred prior to and following an issuer’s year-end [across the firm’s large accelerated and accelerated filer engagements](#) and on the [specific engagement](#).

Periods Presented

4. Restatement History (firm-level only) – Restatements of financial statements and management reports on internal control over financial reporting (“ICFR”) that were audited by the firm [over the past three years](#).

While we understand that there may need to be initial scaling for the metrics to the largest filers, the reality is that information that is value relevant to investors is value relevant irrespective of the size of the engagement, so we believe there should have been a period over which the metrics became applicable to all public companies.

Metric Added

The only metric added was the addition of training hours for audit personnel. Given the push back on the need for metrics to “directly link to audit quality” this connection seems very indirect and not very useful. Additionally, given the pervasive pattern of cheating on internal train across the firms, this metric is likely to be discounted by investors.

1. Training Hours for Audit Personnel - Average annual training hours for partners, managers, and staff of the firm, combined, across the firm and on the engagement.

***Net Result for Investors: More Reductions Than Additions from Proposed Rule
The Metrics are A First Start, But There Is a Long Way to Go***

The net result of the Final Rule is that only 7 of the original 11 proposed firm-level metrics were retained and only 5 of the original 9 proposed engagement-level metrics were included in the final rule. The addition of the training metric at the firm and engagement level adds little, in our view, to the suite of metrics disclosures given the widespread reporting of cheating across the firm on training. The net result is 8 firm level and 6 engagement letter metrics.

Overall, we find nearly all the revisions from the Proposed Rule to the Final Rule are reductions in firm and engagement metrics, other than the addition of training time which wasn't and addition we sought.

Analysis of Eliminated Metrics:

Some of the Most Important Risk Related Metrics Have Been Lost – The reductions represented eliminations of important firm, and more importantly engagement-level, metrics related to risk areas, use of specialists, use of service centers, and the internal monitoring of engagements. They are significant losses for investors as we described above.

The removal of the metric which highlights the link between partner compensation and audit quality is the removal of an important firm-wide, tone at the top metric.

Firm Level Analysis – The addition of the firm-level metrics will increase the comparability between firms and provide context for the six engagement-level metrics, so this represents and improvement.

Engagement-Level Analysis – The metrics – particularly the engagement level metrics – are a first start but there is a long way to go in improving the transparency of the audit. The net transparency to investors at the engagement-level only consists of the following for the largest public issuers:

Hours and Workload

1. Partner and Manager Involvement. Hours worked by senior professionals relative to more junior staff [across the firm's large accelerated and accelerated filer engagements](#) and on the [specific engagement](#).
2. Workload. [For senior professionals who incurred hours on large accelerated or accelerated filer engagements](#), average weekly hours worked on a quarterly basis, including time attributable to [all engagements, administrative tasks, training](#), and all other matters.
3. Allocation of Audit Hours. Percentage of hours incurred prior to and following an issuer's year-end [across the firm's large accelerated and accelerated filer engagements](#) and on the [specific engagement](#).

Experience

4. Experience of Audit Personnel. Average number of years worked at a public accounting firm (whether or not PCAOB-registered) by senior professionals across the firm and on the engagement.
5. Industry Experience. Average years of [career](#) experience of senior professionals in key industries audited by the firm at the firm

Training

6. Training Hours for Audit Personnel. Average annual training hours for partners, managers, and staff of the firm, combined, across the firm and on the engagement level.

The Final Rule Has Our Support as a Starting Point: More is Needed

We view this Firm and Engagement Metrics Final Rule as a starting point – not an ending point – in our advocacy related to greater transparency.

We have spent substantial time analysing the changes from Proposed to Final Rule, conclusions in the Final Rule, along with the Dissenting Board Member’s statement because we believe investors – the audit firms’ client – will continue to assert the need for greater transparency.

We supported the Proposed Rule and believed in certain circumstances the Board should have gone further. ***Despite being disappointed by the reduction in metrics from the Proposed to Final Rule – particularly engagement-level metrics –we will support the Final Rule, but we believe this is but a first start – knowing that change is incremental – on increasing audit transparency.***

We continue to be disappointed that the audit profession seems to believe that remaining a credence good is in their best interest. Such perspective 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.

ANALYSIS OF DISSENTING BOARD MEMBER'S STATEMENT

As is evidenced by the citations made above, we read with interest the views of the only PCAOB Board member²⁰ to dissent to the Firm and Engagement Metrics Final Rule in her statement, [*Will This Unusually Rushed Auditing Standard Suffer the Same Fate of the Auditing Standard 2?*](#)

We did the same with the Dissenting Board Member's statement related to the Firm Reporting Final Rule, [*Extremism in the Name of Investor Protection*](#),²¹ an analysis of which is included at Appendix B of [that comment letter](#).

Because of the titles of these dissent's; the statements within them – including the call for oversight of the PCAOB by Congress; and the political rhetoric emanating from these statements we believed it was important for the SEC to have a thorough analysis of the assertions made within these dissents – particularly in light of the modest rulemaking they represent and the limited transparency provided to investors relative to their long-standing calls for greater transparency.

Assertions Addressed Above

In the preceding sections of this letter, we address and rebut many of the assertions made in the dissent including:

1. The rulemaking is rushed and represents midnight rulemaking.
2. The Final Rule will suffer the same fate as AS2.
3. PCAOB's decision-making should be based on a tally of comment letter views.
4. Stakeholder comments were not considered.
5. Pilot testing – a delay tactic – should be performed.
6. Audit committees do not believe additional information is needed and do not support the rulemaking.
7. Investors do not need additional information and do not support the rulemaking.

Additional Assertions Considered

Below, we challenge several other assertions made in the Dissenting Board Members statement which were not addressed previously.

Missing From the Dissent: Articulation of Problems with Metrics

What we didn't note in the Dissenting Board Member's statement was a comprehensive, cogent argument explaining why the metrics were not accurate or useful to investors. Several pages are devoted to the accuracy, usefulness and helpfulness of the metrics, but the arguments and conclusions lack cohesiveness and are challenging to follow, and, as such, are not persuasive. We consider those sections of the dissenting statement below.

Accuracy of the Information

The Dissenting Board Member's statement asks whether the information to be collected will be accurate but fails to answer the question posed. The question is asked but then accuracy is

²⁰ See PCAOB Board Member Ho's Statement of Dissent to Firm & Engagement Metrics Final Rule at: [Statement on the Firm & Engagement Metrics Adopting Release - Will This Unusually Rushed Auditing Standard Suffer the Same Fate of the Auditing Standard 2? | PCAOB](#)

²¹ 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](#)

never discussed. Rather, citations of audit committee members views on the interpretations of the metrics, the public availability of the metrics, and whether additional context is needed were provided. These are interpretation points not accuracy arguments. The conclusion reached is that more characters are needed to provide context for the metrics.

An unusual and unrelated conclusion in the context of a question on accuracy. One would have thought this section would have included a discussion of the data sources or the mechanics of the computations that might result in them being inaccurate. This argument is never provided.

We would note related to the context conclusion made, that there is no prohibition in providing additional context in firm transparency reports or audit committee reporting should audit firms or audit committees include those metrics in those documents.

Usefulness of Information

The Dissenting Board Member's statement asks whether the information to be collected will be useful but doesn't provide a cogent argument in support of the implication that the information is not useful.

Usefulness Judged Solely by Link to Audit Quality? – The term audit quality is used 16 times throughout the Dissenting Board Member's statement. The direct or indirect link to audit quality is mentioned twice. Much of this discussion of audit quality is included within this question regarding usefulness of the metrics where the Dissenting Board Member's statement also makes the assertion that:

The foundational principle of all PCAOB standards is to protect investors by improving audit quality.

As we discuss on Pages 41-44 of [our comment letter](#) to the SEC Notice on Firm Reporting, neither the definition of audit quality nor the needed directness to audit quality are defined. Further, the PCAOB's mission is investor protection not audit quality per se.

It's not clear from the Dissenting Board Member's statement whether usefulness is to be judge solely based upon audit quality.

Audit Training Metric – The statement then highlights that the Dissenting Board Member believes the auditor training metric is not useful.

Short Comment Period – The statement goes on to discuss the short comment period – 60-days – without an articulation of the connection of that remark to usefulness.

Pilot Testing – From there the statement moves on to the pilot testing – presumably to communicate that pilot testing is needed to assert usefulness. We address the pilot testing above.

Overall, it is hard to connect the disparate thoughts within the question to a cogent argument explaining why the exact metrics proposed are not useful.

Helpfulness of the Information

The Dissenting Board Member's statement then asks whether the information to be collected will be helpful to the target users. It is not clear how the preceding question on usefulness is

different from this question on helpfulness. Again, it's hard to follow the argument/assertion being made. In many instances useful and helpful are synonyms.²²

The Dissenting Board Member cites references to questions from the CAQ Audit Committee Survey supposedly asserting this shows information is not helpful. We address that assertion previously in the discussion of audit committee responses.

The Dissenting Board Member then cites a single reference to a question within the CAQ Investor Survey supposedly asserting investors have sufficient information. We address this assertion previously in the discussion of investor responses.

The Dissenting Board Member then criticizes the economic analysis stating:

In addition, the PCAOB dismisses commenter concerns by blithely ignoring, or at best, downplaying audit committee and investor commenters, who are among the intended users, of which more than a super-majority have stated that they have all or most of the information they need to assess audit quality.

The Dissenting Board Member does not address whether these metrics are useful or helpful but rather argues that from these citations that the metrics are not helpful or useful because users say they have all or most of the information they need to assess audit quality (i.e. which is never defined). However, as we illustrate in the discussion of audit committee comments and investor comments above, the Dissenting Board Member fails to include the elements of this same CAQ Investor Survey and Audit Committee Survey that are inconvenient to her conclusion, and which show support for additional transparency. Those same surveys show that the selection and reliance on the auditor by both audit committees and investors is heavily reliant on a perception of the audit firms – rather than actual information received by the users.²³

Capacity and Cost Would Overburden Firms and Harm Audit Quality and Investors

The Dissenting Board Member asserts that the issuance of five standards and one rulemaking – of which this and the Firm Reporting rulemaking represent two of the six adopted standards/rules – create significant capacity concerns that will overburden the audit firms and have catastrophic impacts on audit quality.

As I have stated previously, continuing to force feed the auditing profession with a voluminous number of standards within the limited funnel of a couple years is going to have catastrophic impacts to audit quality. Capacity is an important factor that the PCAOB has not seriously considered as part of its most ambitious standard-setting and now midnight rulemaking agenda in PCAOB history.

Not only does she not precisely articulate how the standards or rulemaking will result in the catastrophic impact on audit quality, but she also fails to recognize the reduction in these rules from the proposal to final stage as well as the scaling which has been done to reduce application of many of these metrics and the firm reporting requirements to only the largest firms. (i.e., See quote below regarding inaccurate assertion that the metrics are applicable to the entire profession.)

²² See definition at: [helpful - Google Search](#)

²³ Specifically, see Page 9 (Slide 3) of the Center for Audit (“CAQ”) Committee Survey and Page 24 (Slide 18) of the CAQ Investor Survey at: [caq_supplemental_comment_letter_to_pcaob_firm_and_engagement_metrics_survey_data_2024-08](#)

While criticizing the economic analysis related to the Final Rule...

In terms of capacity, several commenters suggested the consideration of the cumulative effects of this standard, along with other rules and standards. However, our economic analysis rejects conducting an evaluation of the integrated impact, aggregated effects, and cumulative costs versus benefits of all the new standards, despite several commenters suggesting that the PCAOB do so.

...The Dissenting Board Member provides no evidence supporting her assertion that:

It is clear to me that our rushed standard setting agenda will increase audit fees exponentially, reduce capital formation, drive out audit competition, and intensify the talent shortage within this profession. So, I ask again, are we really protecting investors?

She goes on to assert – but again no evidence is provided in support of the assertion – that only a small percentage of investors will use the information – despite the earlier CAQ Investor Survey which refutes that conclusion:

Another commenter believes that only a small percentage of investors will benefit from this proposal and also acknowledged the indirect correlation of the metrics to audit quality. So why are we imposing costly requirements on an entire profession and indirectly public companies for negligible investor benefits? Unfathomably, I do not clearly see where our economic analysis points to adequate supporting evidence indicating main street investors are asking for these metrics.

In this quote she also fails to recognize the requirements are not applicable to the entire profession – only audits of public companies, and only audits of the largest public issuers.

Further, her assertion that the cost is being imposed on public companies fails to recognize a) investors own these public companies and that cost – as they are the residual owners of the firm – are borne by them, and b) the CAQ Investor Survey she leans on heavily supports the disclosure of this information.

The Dissenting Board Member's assertion above brings to mind the earlier quote by the late Jack Bogle, Founder of Vanguard, in his [2012 testimony to the PCAOB on auditor rotation](#) where he addresses cost-benefit analysis.

Here, I take the liberty of expressing my strong reservation that the (theoretically wonderful) requirement that a “cost-benefit analysis,” a requirement of federal regulators since 1993, is the paragon of common sense. In my experience, cost is usually within the realm of calculation; benefits too often are not.

We routinely find that standard setters and policymakers – because they are pressured by those opposing their reforms – overweight the costs and underweight the benefits given they are much harder to estimate.

Our earlier comment – and the recognition on Page 7 of the Final Rule that such disastrous comments never come to pass – bears this out.

Disproportionate Burden to Small Firms

The Dissenting Board Member also asserts that the Final Rule will be detrimental to capital markets resiliency and the economy because of its disproportionate burden on small firms, but fails to recognize that this Firm and Engagement Metrics Final Rule as well as the Firm Reporting Rule have been scaled back to require disclosures only from the firms with a large number of issuers (e.g., special reporting requirements in Firm Reporting) and the disclosure of only certain firm and engagement level metrics for the largest issuer firms in the Firm and Engagement Metrics Final Rule.

We find it troubling that the Dissenting Board Member states the Firm and Engagement Metrics release is being created to produce more inspection findings and more civil penalties by saying:

*My professional skepticism leads me to wonder if **this adopting release is a thinly veiled tactic to create more avenues for inspection findings so that the PCAOB can rejoice in record-setting enforcement actions and civil money penalties.***

This and other comments unfairly inflame the political rhetoric about the PCAOB.

Overall Assessment of The Dissenting View

Overall, we find the Dissenting Board Member's statement a bit of a shotgun series of criticisms that:

- Omits inconvenient information such as the letters from investors in support of the Proposed Rule and elements of the CAQ Investor Survey which clearly demonstrate investors support the proposed metrics at both the firm and engagement-level. Even the audit profession's own survey shows investors seek this information.
- Ignores the existence of the nearly two decades of consideration of firm and engagement metrics which preceded the release of the Proposed Rule in 2024 and thereby incorrectly asserts rushed, midnight rulemaking.
- Fails to recognize the fact that all the metrics in the Proposed Rule, and ultimately, the Final Rule were included in the 2015 Concept Release.
- Does not recognize the end result of the Final Rule is modest rulemaking – given the reduction in metrics from the 28 in the 2015 Concept Release, to the 11 in the 2024 Proposed Rule, to the 8 firm-level (7 of which were in the Proposed Rule) and 6 engagement-level metrics (5 of which were in the Proposed Rule) in the Final Rule.
- Disregards the scaling of the metrics to only larger firms and the largest public companies.
- Forgets that the firm-level metrics exist in firm transparency reports today – but are inconsistently computed and not contextualized for relevance to investors by having comparable engagement-level metrics.
- Pays no attention to the developments in other jurisdictions related to these metrics.
- Does not provide a compelling and cogent argument regarding why the metrics are not accurate, useful or helpful.
- Expresses that stakeholder comments have not been considered despite over 125 pages of analysis of stakeholder feedback in the Final Rule and a reduction in the metrics as a result of that analysis.
- Incorrectly asserts that PCAOB rulemaking should be done based upon the number of comment letters received from the audit profession rather than the PCAOB's mission of investor protection.
- Includes many traditional objections meant to delay rulemaking such as the need for pilot testing – which cannot be effectively done without public dissemination of the information and which has already been done via the inclusion of many of the firm level metrics in firm transparency reports (i.e., a pilot test which demonstrates rulemaking is necessary to achieved greater consistency and comparability.)
- Relies heavily on comments from the auditing profession (6 of 11 comment letter citations) within the statement and omits citations of investors supporting the Proposed Rule.
- Includes overstatements without evidence to support such statements. For example:
 - A comparison of the Final Rule to AS2 based upon an inaccurate count of days to create the Final Rule and no consideration of the very substantive differences in the development and nature of the respective rules.

- The projected burden to the audit profession, including small firms, and audit quality without recognition that the net result of the addition is six engagement-level metrics mostly for the largest firms as they audit the largest public companies.
- The PCAOB is creating the Final Rule simply to increase fines to registered firms.
- Makes references to laws to which the PCAOB is not subject in an attempt to support the Dissenting Board Member's call for U.S. Congressional Oversight of the PCAOB in the related dissent to the Firm Reporting Final Rule.²⁴

The end result is a degree of hyperbole and inaccurate narratives regarding the Final Rule which result in the politicization of the PCAOB – most evident through the Dissenting Member's call for U.S. Congressional Oversight of the PCAOB in the related dissent to the Firm Reporting Final Rule – that is harmful to the long-term balance and credibility of the PCAOB. Though more directly connected to the SEC, we have not seen such politicization of the FASB, charged with accounting standard setting – and funded in the same manner as the PCAOB through the 2002 SOX Act.

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.

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

²⁴ See discussion regarding call for PCAOB oversight by Congress on Page 32-33 and 45-46 of [our response](#) the [SEC's Notice on Firm Reporting](#).

2015 CONCEPT RELEASE METRICS

Below is a summary table of the metrics included within the 2015 Concept Release. A comparison of the 28 potential metrics in that 2015 Concept Release to the 11 metrics included in the Proposed Rule and the 8 which were retained in the Final Rule is as follows:

- Proposed Rule:
 - Engagement-Level 2,3,4,5,6,7,8,9,12,14,18 and 21
 - Firm-Level 2,3,4,5,6,7,8,9,12 and 18
- Final Rule
 - Engagement-Level 2,3,6,7,8,10,12 and 21
 - Firm-Level 2,3,6,7,10, and 12

Bottom Line: The Proposed and Final metrics have been in discussion since 2015.

The 28 potential indicators are:²⁰

AUDIT PROFESSIONALS	Availability	1. Staffing Leverage 2. Partner Workload 3. Manager and Staff Workload 4. Technical Accounting and Auditing Resources 5. Persons with Specialized Skill and Knowledge
	Competence	6. Experience of Audit Personnel 7. Industry Expertise of Audit Personnel 8. Turnover of Audit Personnel 9. Amount of Audit Work Centralized at Service Centers 10. Training Hours per Audit Professional
	Focus	11. Audit Hours and Risk Areas 12. Allocation of Audit Hours to Phases of the Audit
AUDIT PROCESS	Tone at the Top and Leadership	13. Results of Independent Survey of Firm Personnel
	Incentives	14. Quality Ratings and Compensation 15. Audit Fees, Effort, and Client Risk
	Independence	16. Compliance with Independence Requirements
	Infrastructure	17. Investment in Infrastructure Supporting Quality Auditing
AUDIT RESULTS	Monitoring and Remediation	18. Audit Firms' Internal Quality Review Results 19. PCAOB Inspection Results 20. Technical Competency Testing
	Financial Statements	21. Frequency and Impact of Financial Statement Restatements for Errors 22. Fraud and other Financial Reporting Misconduct 23. Inferring Audit Quality from Measures of Financial Reporting Quality
	Internal Control	24. Timely Reporting of Internal Control Weaknesses
	Going Concern	25. Timely Reporting of Going Concern Issues
	Communications between Auditors and Audit Committee	26. Results of Independent Surveys of Audit Committee Members
AUDIT RESULTS	Enforcement and Litigation	27. Trends in PCAOB and SEC Enforcement Proceedings 28. Trends in Private Litigation