



SMALLER FIRM TASK FORCE

June 20, 2024

By email: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

**Re: Proposing Release: Firm and Engagement Metrics; PCAOB Rulemaking Docket Matter No. 041;
Proposing Release: Firm Reporting; PCAOB Rulemaking Docket Matter No. 055**

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) Smaller Firm Task Force (SFTF) provides a forum for smaller and medium-sized CAQ member firms (consisting of non-affiliate firms (NAFs)¹ including a mix of triennially inspected firms that generally audit mid to smaller market cap issuers) to discuss technical and regulatory issues that impact their public company auditing practices. It also facilitates meetings with stakeholders, including PCAOB staff and Board members, to offer the perspective of smaller firms on practice and regulatory matters. The SFTF provides resources and support to smaller and medium-sized firms, making sure they are well-represented and their concerns are addressed in the broader professional community.

This comment letter represents the views of the SFTF regarding the totality of the PCAOB's standard setting activities, including its recent Proposals, *Firm and Engagement Metrics* and *Firm Reporting* (Proposals).^{2,3} While the SFTF agrees with the CAQ comment letters submitted on June 7, 2024 to the PCAOB in response to the its Proposals,⁴ the objective of this letter is to further emphasize the SFTF's concerns with respect to the cumulative impact of the PCAOB's activities on smaller and medium-sized firms. It should be noted that, in the over 15-year existence of the CAQ, the SFTF has not separately commented on PCAOB standard setting or other PCAOB activities.

¹ NAFs are U.S. or non-U.S. accounting firms that are registered with the PCAOB but are not Global Network Firms (GNFs). GNFs are the member firms of the six global accounting firm networks (BDO International Ltd., Deloitte Touche Tohmatsu Ltd., Ernst & Young Global Ltd., Grant Thornton International Ltd., KPMG International Ltd., and PricewaterhouseCoopers International Ltd.).

² See PCAOB Releases No. 2024-002 and 2024-003.

³ The CAQ is a nonpartisan public policy organization serving as the voice of US public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by US public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, US public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of US public company auditors and audits to dynamic market conditions. This letter represents the observations of the CAQ based upon feedback and discussions with certain of our member firms, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

⁴ See [CAQ comment letter on PCAOB Firm and Engagement Metrics Proposal](#) and [CAQ comment letter on PCAOB Firm Reporting Proposal](#).

In May 2022, the PCAOB announced an ambitious standard-setting agenda. In its 2022-2026 Strategic Plan, the PCAOB declared that it “will improve audit quality by adopting [auditing] standards that are clear and scalable, to account for differences in the complexities and sizes of firms and the public companies... that they audit.”⁵ We agree with PCAOB Board member Christina Ho, who recently referred to this excerpt noting its importance because, “(1) it is sensible; (2) it is consistent with the PCAOB’s statutory investor protection mandate which I believe the PCAOB can best fulfill by ensuring audit quality; and (3) it recognizes differences between and among audit firms.”⁶

PCAOB Chair Williams stated in late 2023, “In advancing the agenda to modernize our standards, the Board has taken more formal actions on standard setting and rulemaking this year than any year in the last ten.”⁷ Since this statement the PCAOB has reopened a comment period, released four proposals, and adopted four final standards and rules, a number of which were proposed and/or finalized simultaneously. At the same time the profession continues to support and prepare for the implementation of final standards adopted by the Board in 2022 and 2023.⁸ Although this ambitious standard-setting agenda is well-intentioned, and we overall support the Board’s goal of modernizing standards to reflect public company auditing practices in today’s environment, we have serious concerns regarding the pace and volume of the Board’s activities and its impact on smaller firms and, ultimately, smaller companies and our capital markets.

We have organized our comment letter to express points of view to the PCAOB on the following:

1. Importance of smaller businesses to the overall capital markets
2. Importance of smaller accounting firms to smaller companies
3. More pronounced impact of PCAOB regulation overload on smaller firms and companies
4. Overall recommendations

Importance of Smaller Businesses to the Overall Capital Markets

The financial reporting ecosystem is diverse and includes public companies of all sizes. Small public companies are important not only to the communities in which they operate but are vital to the overall economy and workforce in the United States. According to the Fiscal Year 2023 Annual Report from the U.S. Securities and Exchange Commission (SEC) Office of the Advocate for Small Business Capital Formation, 99.9% of all businesses are small businesses, 43.5% of the U.S. GDP is created by small businesses, and 63% of net new jobs are created by small businesses.⁹

Affordable capital is the lifeblood of America’s small public companies and small businesses are the economic backbone of rural communities, providing the majority of rural jobs.¹⁰ After the implementation

⁵ See https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/strategic-plan-2022-2026.pdf?sfvrsn=b2ec4b6a_4.

⁶ See <https://pcaobus.org/news-events/speeches/speech-detail/remarks-for-the-u.s.-chamber-of-commerce-virtual-event>.

⁷ See <https://pcaobus.org/news-events/speeches/speech-detail/chair-williams-statement-before-the-sec-open-commission-meeting-on-the-pcaob-s-proposed-2024-budget>.

⁸ See PCAOB rulemaking dockets 28 and 42.

⁹ See <https://www.sec.gov/files/2023-oasb-annual-report.pdf>.

¹⁰ Ibid.

of the Sarbanes-Oxley Act of 2002 (SOX), public companies experienced significant increases in audit fees combined with the cost of their own implementation, which disproportionately impacted smaller companies. As a result of these increases, many small public companies chose to sell or go private, and many private companies were deterred from obtaining capital through public offerings.

It is essential that the PCAOB carefully consider the potential additional costs associated with the implementation of these Proposals on capital formation, particularly since the potential benefits are doubtful. We agree with a recent comment to the PCAOB, “Thus, we are concerned that there is no numerical economic analysis related to the proposed firm reporting standard, especially its costs and benefits. Of particular concern is that in addition to the missing numerical analysis, certain questions suggest that the PCAOB expects other parties to provide such data.”¹¹ PCAOB Board member Christina Ho expressed a similar sentiment in her dissent to the Board’s Firm Reporting Proposal.¹² We believe that the PCAOB’s quantification of costs and benefits to the overall capital markets should include careful consideration of the costs to smaller firms and the benefits to stakeholders in those companies the smaller firms audit. The PCAOB should evaluate and identify the characteristics of investors in smaller companies and determine if the needs of investors in those companies are the same as the potential needs of investors in large companies.

Importance of Smaller Accounting Firms to Smaller Companies

Smaller accounting firms play a vital role in providing quality audits to emerging, small and middle-market companies, all of whom require access to the capital markets to grow their businesses. Smaller accounting firms are deeply rooted in the local communities they serve. Community involvement is also observed through hiring practices in which smaller accounting firms play a strong role in providing employment opportunities and career advancement for a diverse workforce, thus contributing to local economic growth.

Smaller accounting firms range in size and depth of resources and are a great fit to serve as the independent auditors of many emerging, small and middle-market companies. And ultimately, these accounting firms play a critical role in assuring the quality of information investors rely on to have confidence and promote effective functioning capital markets. For the reasons below, we are deeply concerned about the negative impact these Proposals will have on smaller accounting firms if adopted.

More Pronounced Impact of PCAOB Regulation Overload on Smaller Firms and Companies

Disproportional impact of increased regulation on smaller firms

In reviewing comment letters submitted to the PCAOB in the last two years, we observe a number of commenters express concerns about how smaller audit firms may be negatively impacted by a proposed auditing standard or rule. For example, commenters have cautioned the Board regarding the negative

¹¹ See Auditing Standards Committee of the Auditing Section of the American Accounting Association June 4, 2024, comment letter to the PCAOB.

¹² See [Statement on the Firm Reporting Proposal – Are We Regulating the Audit Firms or Driving Out Competition?](#) by Christina Ho.

impacts of reduction in competition.¹³ As a task force comprised of smaller and medium-sized firms, we note that these concerns are very real.

According to a recent survey conducted by the American Institute of CPAs, nearly 75% of respondents would consider eliminating their public company audit practices if the Proposals are adopted, irrespective of the confidentiality of the information. Our public company audit practices are smaller than the larger firms and, as such, the costs we incur to implement administrative data collection processes to comply with the proposed reporting requirements are spread across a smaller number of audit clients and audit fee revenue. These costs may also be significantly disproportionate in comparison to potential benefit. As proposed, an audit firm with a small issuer portfolio (even as small as a single accelerated or large accelerated filer) would be required to compile information regarding their entire audit practice for public disclosure. It is questionable whether this information would have any particular use for the broader public, and whether there will be any basis for comparison of the firm level information to other firms or to specific engagements given potential significant differences in the makeup of the firm's audit practice. Therefore, scalability of PCAOB's standards is critical to managing the costs of implementation of any new standards and reporting rules. We are concerned that these Proposals and the PCAOB's overall standard-setting agenda are not sufficiently scalable. Moreover, we believe the Board should further explore the benefits of the proposed information to stakeholders of smaller public companies as compared to the costs to the firms to provide it.¹⁴

Impact on ability of smaller firms to attract and retain talent

Commenters have previously shared with the PCAOB the well-documented staffing shortages and pipeline issues in the accounting profession. With fewer professionals entering the space coupled with increasing complexity at companies and a robust regulatory environment, auditors at all levels are stretched thin. According to independent research commissioned by the CAQ, 94% of undergraduate accounting majors who have chosen not to pursue, or are undecided on, CPA licensure cite as either a *major reason* or *part of reason* for such decision the belief that the “reg[ulatory] environment makes [the] profession unappealing.”¹⁵ As smaller and medium-sized firms, we believe the talent impact on smaller firms is even more pronounced. Attracting qualified and competent personnel overall is a challenge but attracting talent to perform PCAOB engagements is compounded given the additional costs – whether reputational, time or wellbeing – associated with the work. Adding to the resource constraints is the need for additional personnel that would be required to collect, analyze, review and report the information in the Proposals. We fully understand our public interest and gatekeeper role in the capital markets in doing public company audit work; however, our personnel are beginning to express the desire to exit this work as the rewards of high-quality audits and the public interest no longer outweigh these costs.

Impact on capital formation

The ever-rising cost of regulation increases the likelihood that small companies either go private or are deterred from entering the capital markets. In 2022, the number of exchange-listed IPOs dropped to its

¹³ See NASDAQ August 11, 2023, comment letter to the PCAOB, which states “The Proposal disproportionately impacts smaller companies and audit firms, which would stifle competition and further concentrate an industry already frighteningly dependent on a small number of mega-firm points of failure.”

¹⁴ See Auditing Standards Committee of the Auditing Section of the American Accounting Association June 4, 2024, comment letter to the PCAOB.

¹⁵ See [Increasing Diversity in the Accounting Profession Pipeline: Challenges and Opportunities \(July 2023\)](#).

lowest point since 2009.¹⁶ As noted in the SEC Office of Advocate for Small Business Capital Formation’s FY 2023 annual report, “Small public companies and new public companies face high regulatory costs as a percentage of their size and profit. The regulatory costs for small public companies are disproportionate relative to their size because many costs are fixed.”¹⁷ This same report noted that, while the number of exchange-listed companies has declined, small exchange-listed companies account for the vast majority of that decline.¹⁸ We believe these Proposals, if adopted, will significantly increase costs for smaller and medium-sized firms, which will in turn increase the costs of public company audits – further incentivizing companies to go or remain private.

Impact on the smaller firm audit market

Contrary to early studies on the impact of SOX, evidence does not support the conclusion that smaller firm auditors who exited the market post-SOX were of lower quality on average than those who stayed in the market.¹⁹ This evidence suggests that if smaller firms exit the public company audit market for reasons other than the inability to provide high quality audit services (e.g., overly burdensome regulation), audit quality will be negatively affected.

Overall Recommendations

The SFTF agrees with the recommendations made in the CAQ’s comment letters in response to the Proposals.²⁰ However, below we provide further recommendations to help address the specific concerns we have raised in this letter.

Facilitate engagement with smaller firms in live forums

We are encouraged that the PCAOB has brought back in-person PCAOB Forums for Auditors of Small Businesses and Broker-Dealers. We believe that these dedicated forums for smaller and medium-sized firms are valuable to the profession from an educational perspective. We encourage the PCAOB to continue hosting these forums and look for further opportunities to use these forums as a way of seeking input from smaller firms on current and emerging topics in advance of standard and rule proposals as well as before finalization of the Proposals. We believe it is critically important that the Board proactively conduct outreach and engagement with smaller firms – as well as all stakeholders in this market and otherwise – to seek input on how best to modernize auditing standards and rules with the ultimate goal of improving audit quality while adequately addressing issues facing smaller firms. We recommend these live forums include interactive sessions, such as Q&A discussions and panels with smaller firm representatives.

¹⁶ See <https://www.sec.gov/files/2023-oasb-annual-report.pdf>.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ See “Further Evidence on the Effect of Regulation on the Exit of Small Auditors from the Audit Market and Resulting Audit Quality” by Neil L. Fargher, Alicia Jiang, and Yangxin Yu. *AUDITING: A Journal of Practice & Theory* (2018).

²⁰ See <https://www.thecaq.org/comment-letter-pcaob-firm-and-engagement-metrics-proposal> and <https://www.thecaq.org/comment-letter-pcaob-firm-reporting-proposal>.

Provide longer comment periods

At one of the recent Forum for Auditors of Small Businesses and Broker-Dealers, Chair Williams stated:

“Last year the Board took more formal actions on standard setting and rulemaking than any year since 2013. That work continues in 2024. So far this year, we’ve issued three proposals to modernize, clarify, streamline, and strengthen our rules and standards. We’ve also adopted new standards and amendments through two projects that have been informed by robust input from a wide variety of stakeholders, including small firms.”

“Once we’ve proposed a new or amended standard or rule, we look for more perspective through the public comment process. We encourage small firms to give us their unique perspectives. This input is incredibly valuable for us, and it shows up in our rules and standards.”²¹

We are pleased to hear that Chair Williams values public comment, particularly from smaller firms. The issue we have is our ability and the ability of other smaller firms to provide input in the comment letter process given the volume and pace of the Board’s standard setting agenda and our need to also remain laser-focused on the providing high quality public company audits.

In this year alone the Board has released over 4,200 pages of proposed and final standards and rules that require careful consideration.²² We find the 60-day comment periods to be inadequate for us to read, consider, and provide meaningful feedback in comment letter responses, particularly when certain of the proposed standards were issued in the height of smaller firm busy season and a number were issued simultaneously and contained proposed provisions that overlap and/or duplicate each other.²³ We note that it is common for other standard-setters such as the International Auditing and Assurance Standards Board (IAASB) and the Financial Accounting Standards Board (FASB) to provide comment periods of 90 to 120 days. Smaller firms have limited resources dedicated to reading and responding to proposals (maybe two to three people as compared to teams of resources in the larger firms, and those individuals are often concurrently tasked with updating methodology for new PCAOB standards and other responsibilities to support the performance of quality audits). Communicating that interested stakeholders can submit comment letters late is not responsive to the feedback the PCAOB has received. We urge the Board to consider the ability of smaller firms to provide thoughtful, meaningful feedback when it determines the timing and comment periods for proposed standards.

²¹ See [PCAOB Chair Williams Remarks at PCAOB Forum for Auditors of Small Businesses and Broker-Dealers in Chicago \(pcaobus.org\)](https://pcaobus.org)

²² See PCAOB rulemaking dockets 41, 46, 49, and 55.

²³ The CAQ studied the PCAOB’s rulemaking dockets for standards and rules adopted in the last ten years. We evaluated 11 dockets and observed: The average comment period for a proposed rule or standard was approximately 84 days. The majority of this rulemaking had a re-proposal or supplemental request for comment. We studied the rulemaking dockets and rules proposed since 2022. We evaluated 9 dockets and observed the average comment period was approximately 59 days.

Contemplate the unique costs to smaller firms in the PCAOB's economic analysis

As described above we are concerned that these Proposals will result in smaller and medium-sized firms exiting the public company audit market. We also have expressed concerns that these Proposals will disrupt capital formation and result in more companies remaining private (or in some cases smaller public companies going private). The PCAOB's economic analysis does not estimate the economic impact of such a disruption to audit market competitiveness or capital formation. We recommend the PCAOB's economic analysis for these Proposals (and future proposals) include a specific study of the costs and benefits to smaller firms and smaller public companies.

Issue concept releases related to PCAOB auditing standards and rules

We are deeply concerned by the lack of recent efforts by this Board to gather stakeholder input via concept releases in advance of developing a proposed rule or auditing standard.²⁴ While we understand that adds time to the overall standard-setting or rulemaking agenda, if the objective is to truly enhance audit quality and transparency for stakeholders, we believe such care and due process is warranted. We encourage the Board to issue a concept release prior to issuing a new proposed rule or auditing standard or significant amendments.²⁵

For example, prior to the adoption in 2017 of amended PCAOB AS 3101, [*The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*](#), a concept release was issued prior to an exposure draft, and once exposed, the proposal was discussed by multiple categories of stakeholders at seven advisory group meetings, one public meeting, and one roundtable. Similarly, prior to the finalization in 2016 of PCAOB Rules 3210 and 3211, [*Auditor Reporting of Certain Audit Participants*](#), the Board issued a concept release, two proposals, and a supplemental request for comment in order to obtain stakeholder feedback.

Consider forming a dedicated smaller firm office and/or advisory committee

In 2019, the SEC established the Office of the Advocate or Small Business Capital Formation, an "Office that proactively works to identify and address unique challenges faced by minority-owned, women-owned, rural, and natural disaster area small businesses and their investors. The Office approaches its advocacy mission by:

- Working with small businesses and their investors to understand their capital formation issues through education and outreach;

²⁴ Although the Board issued a Concept Release in 2015 on Audit Quality Indicators prior to the issuance of the Firm and Engagement Metrics proposal, that was done over nine years ago under different circumstances and no efforts were made to update the input received to reflect the current auditing and reporting environment. Concept Releases were not issued prior to any of the other proposals issued in 2024.

²⁵ The CAQ studied the PCAOB's rulemaking dockets for standards and rules adopted in the last ten years. We evaluated 11 dockets and observed: The majority of these rulemakings (55%) had a concept release or staff consultation in advance of the proposal, with an average comment period of 70 days. We also studied the PCAOB's rulemaking dockets for rules or standards proposed since 2022. We evaluated 9 dockets and observed that a minority of these rulemakings had a concept release in advance of the proposed rule, and all were issued prior to 2022. In two instances the concept releases were from 9 or more years before the Board's recent action.

- Analyzing the potential impact of proposed SEC and self-regulatory organizations (SROs) rules and regulations likely to significantly affect small businesses and their investors; and
- Helping small businesses and their investors resolve issues with the SEC and SROs by recommending policy changes to Congress and the Commission.”²⁶

Also established in 2019, the *Small Business Capital Formation Advisory Committee* provides a formal mechanism for the SEC to receive advice and recommendations on SEC rules, regulations, and policy matters relating to small business, including smaller public companies. In a similar fashion, we recommend the PCAOB consider whether an office and/or advisory committee focused on smaller firms would assist the PCAOB in better understanding and addressing the concerns of smaller firms and smaller companies in the spirit of, in part, ensuring the maintenance of a competitive audit firm marketplace in the US. A dedicated group of stakeholders focused on smaller firms would allow smaller firms an opportunity to voice their recommendations and concerns beyond the limited discourse currently allowed the smaller firm representative on SEIAG. It would also demonstrate a genuine commitment to hearing the candid perspectives of smaller firms. The SFTF stands ready to be a resource in exploring how and whether such a structure could help better support the PCAOB’s mission to protect investors in smaller companies.

Study and evaluate scalability of PCAOB standards and rules

As set forth throughout this letter, we believe that it is in the public interest for PCAOB auditing standards and rules to be scalable for smaller firms, which impacts the smaller public companies they audit. This would be consistent with a policy recommendation in the SEC’s Office of the Advocate for Small Business Capital Formation’s FY 2023 report, “Scale disclosures and harmonize requirements for small public companies to help them stay public... To address the challenges facing small public companies, it is imperative that we make the public market an environment that allows companies of all sizes to thrive.”²⁷

We recommend that, over time, the Board conduct a holistic study of PCAOB auditing standards and rules to ensure consistency and reduce confusion and duplicative requirements. The study would benefit from focusing on:

- Reasonableness of thresholds impacting which firms are scoped into compliance with PCAOB rules.
- Reasonableness of deadlines for complying with PCAOB rules.
- Consistency of reporting periods related to complying with various PCAOB rules.
- Harmonization with other auditing standard-setters, especially the IAASB and AICPA.
- Consistency with SEC rules and regulations, as applicable.
- Further opportunities for making the requirements more scalable.

²⁶ See <https://www.sec.gov/oasb>.

²⁷ See <https://www.sec.gov/files/2023-oasb-annual-report.pdf>.

As the Board continues to gather feedback from other interested parties, we would be pleased to facilitate a meeting of the Smaller Firm Task Force with the Board regarding the views expressed in this letter. Please address meeting requests to Annette Schumacher (aschumacher@thecaq.org).

Sincerely,

Members of the Smaller Firm Task Force

cc:

PCAOB

Erica Y. Williams, Chair
George R. Botic, Board member
Christina Ho, Board member
Kara M. Stein, Board member
Anthony C. Thompson, Board member
Barbara Vanich, Chief Auditor
Martin C. Schmalz, Chief Economist

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Paul Munter, Chief Accountant
Stacey Bowers, Director, Office of the Advocate for Small Business Capital Formation