June 7, 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 Reporting; PCAOB Rulemaking Docket Matter No. 055

Dear Office of the Secretary:

The Center for Audit Quality (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.

The CAQ appreciates the opportunity to share our views and provide input on the Proposing Release on Firm Reporting (referenced herein as the Proposing Release or the Proposal) issued by the Public Company Accounting Oversight Board (PCAOB or Board). The CAQ also appreciates the Board's efforts to provide stakeholders with useful information that is consistent and comparable among firms to support informed decision-making by market participants. Based on extensive outreach, the CAQ has long encouraged transparent and voluntary disclosure of firm level information by public company audit firms to assist stakeholders in understanding how audit quality is supported and monitored at a firm.[1] Many audit firms – including the eight audit firms represented on the CAQ's Governing Board – publish audit quality reports voluntarily to communicate with stakeholders how they promote and strengthen audit quality. These reports have evolved over time based on discussions with audit committees, the PCAOB and other stakeholders.

[1] See the CAQ's Audit Quality Disclosure Framework ("Framework").

We have a number of comments and concerns, however, that this Proposal will provide limited and uncertain benefits to those stakeholders while exposing registered firms to significant costs and risks. Consequently, we are unable to support it. As noted in the CAQ's comment letter to the PCAOB dated May 22, 2024, the 60-day comment period does not provide us sufficient time to provide the most comprehensive feedback.[2] We offer this comment letter which provides our overall observations and recommendations as well as comments on specific aspects of firm reporting that the Proposal would require:

Overall Comments and Recommendations

1. Overstatement of Utility and Understatement of Expected Cost of Reported Data
2. PCAOB's Statutory Authority
3. Confidentiality/Privacy Concerns
4. Principles-Based Reporting
5. Impact to Smaller Firms

Comments Regarding Specific Aspects of the Proposal

1. Financial Information: Fee Information; Financial Statements
2. Audit Firm Governance
3. Network Information
4. Special Reporting Requirements
5. Cybersecurity Disclosures: Cybersecurity Incidents; Policies and Procedures
6. Updated Description of QC Policies and Procedures

Overall Comments and Recommendations

1. Overstatement of Utility and Understatement of Expected Costs of Reported Data

As stated above, the CAQ has long supported the notion of transparency by audit firms and our Framework provides a roadmap which encourages voluntary reporting of relevant quantitative and qualitative information about audit quality. However, our Framework emphasizes that understanding the context – *why and how the data is used and calculated* – is essential to the utility and understandability of the data by stakeholders.

We are concerned that it is unclear precisely if or how the disclosure requirements proposed in the Release are useful to investors, audit committees, and other stakeholders. The Proposal seems to rely on conjecture or assumptions without a clear mandate or broad swath of audit committee member or investor input requesting such information. It is also uncertain whether the disclosures would improve or enhance the quality of public company audits; in fact, the Proposal itself acknowledges that they "would not necessarily have a direct relationship to audit quality."[3]

[2] See CAQ comment letter.

[3] Proposal at 68.

In addition, the Proposal does not quantify the estimated costs of the increased reporting requirements and it is doubtful that the benefits would outweigh the costs in terms of either usefulness to stakeholders or audit quality. As discussed in further detail below, this is particularly true regarding the cost firms of all sizes would incur in potentially having to disaggregate fee data for non-issuer audit clients (and potentially even non-audit clients) and, for the largest firms, converting financial statements to be compliant with the applicable financial reporting framework with unclear, if any, benefits. For these reasons, we appreciate and agree with the following statements made by Board Member Christina Ho in her dissent to the Proposal:

> "*I am thus deeply troubled by [the Board's] blatant disregard of the . . . excessive reporting burdens [the Board] seek[s] to impose as this Proposal quantifies neither the increased reporting requirements nor the estimated reporting and recordkeeping costs."*
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> *"The Proposal appears to be erroneously premised on the assumption that 'more disclosure' by every single registered firm regardless of size or circumstance equates to 'better disclosures' for investors and [the Board's] oversight function."*

Although we understand the Board has in years past conducted outreach with its Investor Advisory Group (IAG) and has referenced the 2008 Department of the Treasury Advisory Committee on the Auditing Profession (ACAP) Report. The IAG has a limited number of representatives and much has evolved since the ACAP Report, and as such we recommend that the Board proactively update and expand its outreach to a wider range of stakeholders beyond the IAG, including other investors as well as audit committee members and other stakeholders. The objective of this recommended outreach would be to determine whether the proposed disclosures provide decision-useful information, *how* such information would be used, and *how* information needs could be different based on size/type of firm. The PCAOB should also engage with firms of various sizes to understand how they approach reporting today, whether voluntarily as part of issuing audit quality reports or for purposes of complying with reporting requirements outside the United States (e.g., European Union transparency reporting) to understand judgments made about the nature and extent of reporting that is appropriate for a public audience. This outreach and analysis, together with consideration of public comments received on the proposal, is likely to suggest alternatives for the Board to explore that are more effective and cost efficient, more closely linked to the PCAOB's mandate, and more likely to be tethered to quality.

We also strongly recommend that the Board perform further economic analysis to inform its way forward with respect to policy choices in its rulemaking. Deeper analysis will likely reveal that the benefits to investors and other stakeholders will not justify the costs to aggregate and prepare these disclosures. Additional analysis will also enable the Board to evaluate valid alternatives that will be less costly and more beneficial while better minimizing unintended consequences (such as individuals without sufficient context reaching inappropriate conclusions regarding audit quality). In undertaking this analysis, we encourage the Board to consider the cumulative impacts and costs of other pending PCAOB proposals and consider how those other provisions interact with (and possibly duplicate) each other.

As with other PCAOB rules and standards, any final Board action adopting the Proposal must be approved by the SEC before it takes effect.[4] To grant that approval, the SEC must find "that the rule is consistent with the requirements of this Act and the securities laws, or is necessary or appropriate in the public interest or for the protection of investors."[5] The SEC's ability to make that finding will require a more rigorous economic analysis than that put forward by the Board in the Proposal.[6] In addition to the overstatement of the likely benefits and lack of recognition of the likely costs of the Proposal as a whole as described above, specific instances where the Board's economic analysis appears to fall short include the following:

- The Proposal notes that audit committees are already able to "request and receive firm information via ad hoc requests from incumbent or tendering firms."[7] The Board takes the position that audit committees will still benefit from the Proposal because it "would increase the accessibility and comparability of publicly available information regarding PCAOB-registered firms,"[8] without appearing to sufficiently analyze whether that smaller incremental benefit to audit committees is worth the compliance cost, as well as the potential for increased fees that might result.

- The Proposal notes that the Board considered the collection of information through the inspection process as an alternative to its contemplated approach, but states that this alternative was rejected because it "would yield no public benefits associated with the enhanced information environment."[9] However, the PCAOB's possession of and ability to analyze inspections information conveys a public benefit, and the PCAOB is able to and does use inspections information to provide insights to its stakeholders about audit quality, through the publication of aggregated inspections data and its observations thereon. This point does not appear to have been adequately considered in the Proposal.

In short, the economic ramifications of this Proposal (and the cumulative effect of this Proposal along with other PCAOB proposals, should they be finalized) have not been appropriately performed or adequately considered, and the record established by the Board to support the Proposal is insufficient. More importantly, it will distract the profession from investments and activities that are much more likely to benefit the quality of audits.

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[4] *See* 15 U.S.C. § 7217(b)(2).

[5] 15 U.S.C. § 7217(b)(3).

[6] Section 107 of the Act requires the SEC to apply economic analysis to proposed PCAOB rules equivalent to that required under the Securities Exchange Act of 1934, which includes consideration of "whether the action will promote efficiency, competition, and capital formation." 15 U.S.C. § 78c(f); *id*. § 7217(b). *See also id.* § 7213(a)(3)(C) (prohibiting the Commission from applying certain auditing requirements to "an audit of any emerging growth company," "unless the Commission determines that the application of such … requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation").

[7] Proposal at 63.

[8] Proposal at 63.

[9] Proposal at 85.

2. **PCAOB's Statutory Authority**

In our view, several items proposed for reporting have little relationship with the PCAOB's enumerated powers under the Sarbanes-Oxley Act of 2002, as amended ("Sarbanes-Oxley Act" or "SOX"), a point that was addressed by Board member Ho in her dissent. Accordingly, we encourage the Board to reassess whether it has the statutory authority to require certain aspects of the reporting contemplated by the Proposal and, if it thereafter determines it does, whether it is prudent and is cost beneficial for all stakeholders to pursue in light of other concerns.

In the Proposal, the Board appears to identify SOX Section 102 (primarily 102(d)), as well as Section 101(c)(5), as the principal bases on which it has proceeded.[10] Section 102(d) requires registered audit firms periodically to update the information contained in their registration applications and "to provide to the Board such additional information as the Board or the Commission may specify, in accordance with [subsection (b)(2)]."[11] Subsection (b)(2), in turn, states that firms applying for registration must submit to the Board certain identified information, as well as "such other information as the rules of the Board or the Commission shall specify as necessary or appropriate in the public interest or for the protection of investors."[12] The Board appears to rely on this "such other information" clause for its proposed rules here.[13]

That residual clause, while arguably granting the Board the power to request *some* information beyond the categories explicitly enumerated in Section 102(b)(2), also imposes constraints on that grant. As the Supreme Court has held, "the words 'public interest' in a regulatory statute [are] not a broad license to promote the general public welfare," but rather "take [their] meaning from the purposes of the regulatory legislation."[14] Similarly, "statutory reference" to the adoption of regulations that are "necessary or appropriate" does not give an agency "authority to act, as it [sees] fit, without any other statutory authority."[15] The Board's authority under Section 102(b)(2)(H), then, "must be read with 'some concept of the [Board's] relevant domain' in mind."[16] The words "such other information" have a similar effect under established precedent, which holds that "general words" that "follow specific words in a statutory enumeration" should

[10] *See* Proposal) at 4 n.3, 7, 19 n.48, 20, 23 n.58, 42 (citing various provisions of Section 102(b) through (e)); *id.* at 11 n.19 (citing SOX Section 101(c)(5).

[11] 15 U.S.C. § 7212(d).

[12] *Id.* § 7212(b)(2)(H).

[13] *See* Proposal at 4 (citing "such other information" clause of Section 102(b)(2)(H)).

[14] *NAACP v. FPC*, 425 U.S. 662, 669 (1976); *see also, e.g.*, *Bus. Roundtable v. SEC*, 905 F.2d 406, 413 (D.C. Cir. 1990) ("'public interest' is never an unbounded term . . . broad 'public interest' mandates must be limited to the purposes Congress had in mind when it enacted [the] legislation") (alteration in original) (internal quotations omitted).

[15] *N.Y. Stock Exch. LLC v. SEC*, 962 F.3d 541, 554-55 (D.C. Cir. 2020) (interpreting Exchange Act Section 23 granting to SEC "power to make such rules and regulations as may be necessary or appropriate to implement the provisions" of Exchange Act).

[16] *Chamber of Comm. v. SEC*, 412 F.3d 133, 139-40 (D.C. Cir. 2005).

be "construed to embrace only objects similar in nature to those objects enumerated by the preceding specific words."[17]

We note additionally that the Supreme Court is currently considering a case, *Loper Bright Enterprises v. Raimondo*,[18] in which the D.C. Circuit held that an agency "may not rely on a 'necessary and appropriate' clause to claim implicitly delegated authority beyond its regulatory lane or inconsistent with statutory limitations or directives."[19] The Court's decision in *Loper Bright* may also operate to further constrain the Board's authority.

Applying these principles to Section 102(b)(2), the Board's authority to require the provision of "other" information under subsection (b)(2)(H) is limited to information of the type enumerated in subsections (b)(2)(A) through (b)(2)(G), which includes the names of clients, fees received from issuers and broker-dealers, certain other financial information, quality control policies, the names of accountants, criminal or civil proceedings, and instances of accounting disagreements.[20] That list does not suggest that Congress contemplated the public disclosure of most of the detailed information called for by the Proposal and does not contemplate the PCAOB requesting information to assess the stability or solvency of auditing firms akin to that collected by a prudential regulator. As a result, we are concerned that aspects of the reporting called for under the Proposal are not adequately supported by SOX.

As just one example of the many concerns we have, the Board's proposal to require firms to report any "planned or anticipated material amendments or changes to the firm's organization, legal structure, or governance"[21] would require the disclosure of a potentially broad range of internal corporate developments that may not have any direct impact on the audit practice, including those not actually undertaken but merely "anticipated."

Section 102 lacks any indication that Congress contemplated its grant of authority to the PCAOB to be so expansive. Similarly, the Proposal would require the disclosure of any cybersecurity incident that has led, "or [is] reasonably likely to lead, to unauthorized access to the [information systems] of the firm in a way that has resulted in, or is reasonably likely to result in, substantial harm to the audit firm or a third party."[22] This would arguably require a firm to report instances when systems related to non-audit practice areas within the registered audit firm entity are breached. There is no reason to believe that Congress intended registered firms' non-audit operations to be subject to PCAOB oversight in this way.

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[17] *Circuit City Stores, Inc. v. Adams*, 532 U.S. 105, 114-15 (2001) (internal quotations omitted); *see also, e.g.*, *Bus. Roundtable*, 905 F.2d at 413 ("[T]he general standard at the end of [a] list should be construed to embrace only issues similar to the specific ones.").

[18] No. 22-451 (S. Ct. argued Jan. 17, 2024).

[19] *Loper Bright Enters., Inc. v. Raimondo*, 45 F.4th 359, 368 (D.C. Cir. 2022); *see also, e.g.*, *N.Y. Stock Exch. LLC v. SEC*, 962 F.3d 541, 554-55 (D.C. Cir. 2020) (rejecting SEC's "view that the statutory reference to 'regulations as may be necessary or appropriate'" in 15 U.S.C. § 78w(a)(1) "gave it authority to act, as it saw fit, without any other statutory authority").

[20] *See* 15 U.S.C. § 7212(b)(2)(A)-(G).

[21] Proposal Appendix, Item 8.1.

[22] Proposal Appendix, Item 9.1.

The Board also appears to lack the authority to issue the proposed reporting requirements under the other provision cited in the Proposal – SOX Section 101. Section 101(a) makes clear that the Board's mission is "to oversee the audit of companies that are subject to the securities laws, and related matters, in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports." That focus on overseeing audit reports features prominently throughout Section 101(c), which describes the duties of the Board.[23] At the end of that list, Section 101(c)(5) grants the Board authority only to "perform such other duties or functions as the Board (or the Commission, by rule or order) determines are necessary or appropriate to promote high professional standards among, and improve the quality of audit services offered by, registered public accounting firms and associated persons thereof, or otherwise to carry out this Act, in order to protect investors, or to further the public interest."[24] This provision does not grant the Board the authority to engage in rulemaking, and at any rate its "public interest" and "necessary or appropriate" clauses place the same constraints on the Board mentioned above. Yet the Board cites Section 101(c)(5) for the proposition that "the Board's mandate extends to monitoring firms and the audit market for disruptions, including those related to firm viability, staffing, or potential legal liabilities."[25] We do not believe Section 101(c)(5) supports such a sweeping interpretation of the Board's powers.

3. Confidentiality/Privacy Concerns

As noted above, we have concerns as to whether certain aspects of the Proposal are supported by the provisions of SOX. However, should the Board move forward with the Proposal, we believe the information that would be required to be reported should be submitted through the inspection program, where the Board is already collecting certain of the identified categories of data, rather than through reporting on Form 2 and Form 3. Submission in the context of inspections governed by Section 104 would, among other things, extend the statutory confidentiality protections established under Section 105(b)(5) of the Act to this information,[26] and would ensure that other federal, state, or non-U.S. regulatory authorities that receive the information, including the SEC, maintain its confidentiality.

Conversely, it is unclear whether confidentiality protections under Section 102 of the Act (under which the Board currently proposes to receive the information identified in the Proposal) would provide the same level of assurance of confidentiality protection as that provided by Section 105(b)(5). Although Section 102 specifies that "the Board shall protect from public disclosure information reasonably identified by the subject accounting firm as proprietary information,"[27] we are concerned that such proprietary information submitted under Section 102 could

[23] *See, e.g.*, 15 U.S.C. § 7211(c)(2) (directing the Board to "establish or adopt, or both, by rule, auditing, quality control, ethics, independence, and other standards relating to the preparation of audit reports for issuers, brokers, and dealers").
[24] 15 U.S.C. § 7211(c)(5).
[25] Proposal at 11 & n.19.
[26] 15 U.S.C. § 7215(b)(5).
[27] 15 U.S.C. § 7212(e).

eventually be made public. Specifically, unlike information that is submitted through the inspection process (which is accorded protection under Section 105(b)(5)), it is unclear how the Board would interpret its duties under Sarbanes-Oxley were it to receive requests for confidential information from third parties not covered by Section 105(b)(5).[28] Similarly, unlike the process outlined in Section 105(b)(5) (whereby the PCAOB may make inspection information available to other agencies without the loss of its statutory confidentiality protections), if the PCAOB were to make information reported under this Proposal available to other agencies, it is unclear how the PCAOB would fulfill its statutory obligation to keep the information confidential.[29]

We note that these considerations regarding the information identified for confidential reporting are particularly critical because the Board asserts in its proposing release that those categories of information would be principally designed to assist the PCAOB in monitoring events "that may bear on a firm's financial condition or solvency."[30] Yet, Congress did not establish the PCAOB to act as a prudential regulator of registered audit firms, nor were the existing confidentiality provisions of the Sarbanes-Oxley Act crafted with that form of oversight in mind.[31] Thus, at a minimum, if the Board proceeds with these confidential elements of firm reporting – all of which would sit at the outer bounds of (and perhaps beyond) its regulatory authority – it is imperative that the Board accord the most stringent confidentiality protections that it is currently authorized to apply under the Act to any information it seeks to collect for purposes of assessing stability or solvency.

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[28] PCAOB Rule 2300(g) states, in part, that a confidentiality designation applied pursuant to Section 102 will not "limit the ability of the Board . . . to comply with any subpoena validly issued by a court or other body of competent jurisdiction." The Rule goes on to note that, "[i]n the event the Board receives such a subpoena, the Board will notify the public accounting firm of such subpoena, to the extent permitted by law, to allow the public accounting firm the opportunity to object to such subpoena," but does not indicate what steps the Board itself would take to maintain the confidentiality of the information.

[29] PCAOB Rule 2300(g) indicates that the Board makes confidentially submitted information available to the SEC, but does not state what limits it attempts to place on the SEC's public use of that information, nor does it indicate whether the Board might, in certain circumstances, make such information available to other agencies identified in SOX Section 105(b)(5).

[30] Proposal at 20.

[31] In contrast, the Board of Governors of the Federal Reserve System ("Federal Reserve") acts as a prudential regulator that seeks to ensure the safety and soundness of individual financial institutions regulated by the Federal Reserve and focuses on the soundness, stability, and resilience of the financial system as a whole. In recognition of this prudential role and the sensitivity of the "confidential supervisory information" that the Federal Reserve obtains from the institutions it supervises and examines to accomplish that mission, applicable regulations accord much more stringent protections to that information. *See, e.g.*, 12 C.F.R. § 261.4 ("Except as provided in this part or as otherwise authorized, no officer, employee, or agent of the Board or any Reserve Bank shall disclose or permit the disclosure of any nonpublic information of the Board to any person other than Board or Reserve Bank officers, employees, or agents properly entitled to such information for the performance of official duties"); 12 C.F.R. § 261.23(a)(1) ("It is the [Federal Reserve]'s policy regarding confidential supervisory information that such information is confidential and privileged. Accordingly, the [Federal Reserve] does not normally disclose confidential supervisory information to the public or authorize third parties in possession of confidential supervisory information to further use or disclose the information.").

Congress made clear that, outside of clearly delineated powers under Section 102, it intended the PCAOB to exercise its regular oversight of registered firms through a confidential inspections process. It is unlikely that Congress intended to allow the strong confidentiality protections applicable to the inspections process to be bypassed so easily through the proposed reporting arrangement, which as discussed above could provide less protection.[32] Therefore, if the Board proceeds to require reporting of the identified confidential information to the Board, we strongly encourage the Board to require such reporting pursuant to its inspection authority in Section 104.[33]

Finally, we observe that the Proposal states the Board does not foresee a realistic possibility that any law would prohibit a firm from providing the proposed required information.[34] However the basis for this conclusion is unclear and we suggest that the PCAOB more transparently describe their considerations in reaching it. We also suggest the PCAOB consult with the *International Forum of Independent Audit Regulators* (*IFIAR*) to support such a conclusion with respect to international laws.

4. Principles-Based Reporting

We believe any enhanced reporting requirement should use the principles-based reporting adopted by the EU Eighth Directive. As the Proposal notes, laws adopted by European countries pursuant to the European Union's Eighth Directive, as well as other existing regulations, currently require some firms to provide certain of the transparency reporting that the Proposal would mandate here.[35] Although these requirements outline topics for reporting, the content of such reporting is generally principles-based.[36]

The Proposal takes the position that these regimes are inadequate because they do not apply to all PCAOB-registered firms and because academic studies are "mixed" as to the effectiveness of this reporting given that it is not standardized.[37] Yet, the Proposal does not appear to have

[32] *MCI Telecomms. Corp. v. Exalon Indus., Inc.*, 138 F.3d 426, 430 (1st Cir. 1998); *see also Whitman v. Am. Trucking Ass'ns*, 531 U.S. 457, 468 (2001) ("Congress … does not alter the fundamental details of a regulatory scheme in vague terms or ancillary provisions.").

[33] We also note that, while Section 102(e) of the Act requires the PCAOB to grant confidentiality to any information "reasonably identified by the subject accounting firm as proprietary," 15 U.S.C. § 7212(e), the Board in fact determines in advance the circumstances in which it will grant confidential treatment, and, notwithstanding the express terms of the statute, may seek to deny confidential treatment in other situations that meet the requirements of Section 102(e). Therefore, Section 102(e) does not stand as a guarantee of confidentiality and appears subject to potentially shifting PCAOB determinations regarding how to implement the confidentiality regime related to this provision of Sarbanes-Oxley.

[34] Proposal at 22.

[35] *See, e.g.*, Proposal at 11.

[36] *See, e.g.*, Communication from the Commission to the Council and the European Parliament: Reinforcing the statutory audit in the EU, 2003/C 236/02 ("The European approach to audit (and financial reporting) policy making is fundamentally a principles-based approach").

[37] Proposal at 58.

considered an alternative similar to the EU's principles-based system which could provide similar public benefits at much lower cost, given that it would take advantage of processes already in place at many firms and would provide firms with the flexibility to disclose information consistent with how it is gathered, analyzed, and used in the normal course of business. The Proposal's apparent assumption that "standardized" reporting is necessary for its use by stakeholders[38] – with the actual usage expected by stakeholders based on assumptions – seems to potentially understate the continued variation in reporting that will occur under the Proposal given the variations in how firms are structured and organized.

5. Impact to Smaller Firms

In the 2008 ACAP Report, then Treasury Secretary Henry Paulson emphasized the importance of "striking a balance between investor protection and market competitiveness, while the co-chairs of the advisory committee highlight[ed] a related goal of reducing the barriers for smaller firms to enter the public company audit market."[39] In recent years, we have witnessed scores of firms that have voluntarily exited the public company auditing arena based on strategic decisions in which they weighed the increasing costs of continued PCAOB registration against potential benefits.[40]

We are concerned that the imposition of significant reporting requirements such as those included in the Proposal would not support the goal of reducing barriers to smaller firms but would rather significantly *increase* those barriers, potentially forcing additional firms out of the public company auditing arena and increasing concentration in the marketplace. Such a concentration would have negative ramifications not only for the profession but also for smaller public companies and smaller private companies hoping to enter the public capital markets that lack the resources to hire the largest firms. We agree with the concern stated by Board Member Christina Ho in her dissent to the Proposal:

> *"I am profoundly worried that the Board's apparent zeal to impose, in each new proposed standard or rule, new burdens on firms, without sufficient tailoring and without quantifying the estimated burdens, may end up breaking the public company auditing profession's back, particularly for small firms. If we 'break' the profession in the name of investor protection, are we really protecting investors?"*

[38] Proposal at 58.

[39] Proposal at 10.

[40] See "*Determinants of Small Audit Firm Exits from the PCAOB-Regulated Audit Market*" by Michael Ettredge, Juan Mao, and Mary Stone. Working Paper (2022). This study points to evidence that smaller firm are voluntarily exiting the market based on strategic decisions in which they weigh the increasing costs of continued PCAOB registration against potential benefits. Specifically, the initiation of PCAOB Form 2 and 3 reporting requirements is among the set of factors contributing to the decision to exit the public audit market. *This study also reports that between 2003 and 2018, 2,307 small firms registered with the PCAOB, of which 1,374 (more than 60%) have deregistered.*

We recommend, therefore, that the Board and PCAOB staff carefully consider the consequences that the Proposal would have not just on smaller auditing firms but on the ability of emerging growth and small private companies to access the capital markets. Forcing smaller firms out of the market and increasing the operating costs of those that remain results in less competition and higher audit costs to small private companies, thus deterring their incentive to join the public company marketplace.

Comments Regarding Specific Aspects of the Proposal

1. Financial Information

A. Fee Information

Registered firms are currently required to report fees billed to issuer audit clients related to audit, other accounting, tax, and non-audit services as a percentage of total fees billed to those audit clients. The Proposal would require, among other things, that firms report these fees on a dollar basis on Form 2 but would also require that audit fees be broken down by fees from issuers, fees from broker-dealers, and fees from "other companies under audit (delineating sources, e.g., fees from private company audits and custody rule audits)."[41]

Although unclear, the Proposal could be read to require firms to report not only audit fees for all private company audits (as seemingly intended by the new note to proposed Item 3.2(a)(1)(c)) but also to report fees from private company audit clients for the other categories (other accounting, tax, and non-audit services) and even fees from non-audit clients in these categories. We have several concerns about the proposed expansion of the fee reporting requirement.

In particular, to the extent that the Proposal seeks fee reporting related to non-issuer or non-audit clients, the Board does not explain how mandating disclosures about a registered firm's private client audit practice, or its non-audit practice represents an appropriate exercise of the Board's authority. As Section 101 of Sarbanes-Oxley makes clear, the Board's authority extends to the oversight of "public accounting firms that prepare audit reports for issuers, brokers, and dealers."[42] Indeed, as Chair Williams highlighted in February 2023, "Congress has placed strict limits on the scope of our authority" and, "[a]s a general matter, audit firms registered with the PCAOB must follow PCAOB standards and rules specifically in connection with their audits of SEC-registered issuers, brokers or dealers only."[43] The PCAOB also has recently issued a proposed new rule highlighting the fact that it does not have oversight of

[41] Proposal at 24.

[42] 15 U.S.C. § 7211(c)(1).

[43] Letter of Chair Williams to Sens. Wyden and Warren at 1 (Feb. 8, 2023), *available at* https://www.warren.senate.gov/imo/media/doc/2023-02-08%20PCAOB%20Chair%20Erica%20Williams%20response%20letter%20to%20Senators%20Warren%20and%20Wyden.pdf.

the private company practices of registered firms, with Chair Williams noting that "[t]he PCAOB's oversight authority extends only to a firm's practice in connection with audits of public companies or SEC-registered broker-dealers."[44] Despite these clear statements, we are concerned that the Proposal steps into the regulation of private company audits and thus urge the PCAOB to reconsider this aspect of the Proposal.

In addition, the costs to compile, aggregate and report the fee information at the level of granularity and precision proposed in the Release would be substantial for firms of all sizes, especially when compared to the expected benefits. For example, complications would likely arise in the process of reconciling the timing and allocation of private company audit fees, given that such audits may involve the interaction of multiple parent, subsidiary and affiliate entities with different fiscal years. In addition, many firms currently report Form 2 data that includes fees attributable to affiliated and network firms (as is permitted under the reasonable methodology approach, as discussed below). If the Board's final rule requires firms to exclude fees attributable to work performed by affiliates or other network firms, registered firms will likely incur substantial costs to adapt to that new approach.

The Board made clear when it originally adopted the Form 2 reporting requirement that the utility of fee information that is publicly reported "does not depend upon a high level of precision in the data,"[45] and the Proposal does not adequately explain why the Board's view on this point has changed. For this reason, Form 2 allowed for both reasonable methods to estimate the components of its underlying calculations and the inclusion of percentages rounded to the nearest five percent. However, it appears that the Proposal might require significant precision in the reported data. Despite the burdensome costs and efforts related to these undertakings, we question whether any benefit would actually be received by investors, audit committees or other stakeholders to justify them. Before the Board proceeds with this requirement, we recommend that it fully research through stakeholder outreach whether providing such fee information is decision-useful and beneficial to audit committees and other stakeholders.

B. Financial Statements

The Proposal would require large firms (i.e., firms with more than 200 reports issued for issuer audit clients and more than 1,000 personnel during the relevant reporting period) to submit their financial statements to the PCAOB on a confidential basis. While we agree with the Board's conclusion that any financial statements or other financial information submitted by firms should be afforded confidential treatment, we have a number of concerns regarding this proposed requirement.

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[44] Proposals Regarding False or Misleading Statements Concerning PCAOB Registration and Oversight and Constructive Requests to Withdraw from Registration, PCAOB Rel. No. 2024-001 (Feb. 27, 2024); Chair Williams' Statement on the Proposal of a New Rule on False or Misleading Statements on Registration and Oversight (Feb. 27, 2024).

[45] Rules on Periodic Reporting by Registered Public Accounting Firms, PCAOB Rel. No. 2008-004, at 7 (June 10, 2008).

- **Utility to Board's Oversight Function.** While we appreciate the Board's intentions, we question *how* obtaining financial information enhances its oversight and monitoring functions compared to what it already collects through the inspections process. For example, the Proposal asserts that having complete financial information from the largest firms could "facilitate the Board's regulatory response in the event of, for example, special solvency-related events."[46]

  What is not clear in the Proposal, however, is *how or what* the Board could/would do in the event of a solvency-related event, given the fact that the Board's authority in this scenario is limited to, as stated in the Proposal, monitoring transient market disruptions.[47] In addition, we do not believe the Board's goal of comparability will be achieved in light of different structures of PCAOB-registered firms, even among the Big Four. Before proceeding with this requirement, we urge the Board to provide clarity on how obtaining financial statements would facilitate its oversight functions in accordance with its statutory mandate. We also recommend that the Board provide transparency with respect to whether and how this confidential information would be shared with other regulatory bodies.

- **Adherence to U.S. GAAP/IFRS.** We have the following serious concerns regarding the proposed requirement for firms to report their financial statements in accordance with a prescribed financial reporting framework (i.e., either U.S. GAAP or IFRS, exclusively):

  - We question the authority and rationale behind requiring firms to change their basis of financial reporting when many use (and may be required to use, pursuant to partnership agreements or other obligations such as bank covenants and related arrangements) another framework to manage and report on their business operations. Converting these financial statements over from the operational framework would entail significant time and expense to firms of all sizes. It is highly likely that the costs of this endeavor would greatly exceed any perceived regulatory benefit.

  - The Proposal would provide for an extended transition period of three years in which firms would be permitted to provide financial statements that do not conform to the applicable financial reporting framework for years 1 and 2. However, this extension is only provided if the firms (1) identify the information required to produce U.S. GAAP or IFRS statements, and (2) provide notes that would reconcile non-conforming financial statements to the applicable financial reporting framework. The requirement to reconcile for the first two years negates the benefit of a transition period as the reconciliation would entail the same time and cost to identify information that is not readily available, as would be required to prepare U.S. GAAP/IFRS financial statements.

[46] Proposal at 26.
[47] Proposal at 26, 68.

- The Proposal would require financial statements delineated by service line (i.e., audit services, other accounting services, tax services, and non-audit services subject to PCAOB oversight).[48] We question the Board's authority to require financial information regarding services outside the Board's jurisdiction. Indeed, in the context of its recently proposed Rule 2400, the Board has stressed the importance of not overstating its regulatory authority; for example, in that proposal, the Board stated: "Anchored by our statutory mandates, the PCAOB's oversight extends only to work performed in connection with audits of issuers and broker-dealers."[49] Moreover, although the rationale for this requirement is linked to the premise of segment reporting, this may not be how the firm actually manages its business and would result in additional unnecessary effort.

- **Confidentiality.** The PCAOB already has the capability and authority to obtain financial information from the firms during the inspection process which, as discussed above, affords a greater degree of confidentiality. The manner in which reporting would occur, as proposed, could expose confidential financial information and subject firms and the companies they audit to competitive, operational and/or financial risks.

Given these substantial concerns, we urge the Board to reconsider this proposed requirement until it has established that the substantial costs would justify the regulatory benefits to investors and other stakeholders.

2. Audit Firm Governance

The Proposal would amend Form 2 to create new Item 1.4, disclosing information about the firm's leadership, legal structure, ownership, and whether the firm has an external oversight function for the audit practice. As noted in our Framework, firm governance and leadership have a direct impact on audit quality.[50] While we agree with the Board's overall objective to obtain information regarding audit firm governance to help investors, audit committees, and other stakeholders better understand firm processes and priorities, and to bolster the PCAOB's oversight of registered firms, we have a number of concerns regarding the specific reporting requirements included in the Proposal:

- **Duplicative Disclosures.** Certain of the firm governance disclosures proposed in the Release are duplicative with each other as well as with reporting requirements contained in the Board's new Quality Control Standard, QC 1000 (New QC Standard). Prior to finalizing any Firm Reporting Rule, we encourage the PCAOB to ensure there are no duplicative disclosures requirements 1) within this Proposal and 2) between this Proposal and the New QC standard (e.g., the identification of those with roles in the system of

[48] Proposal at 26.
[49] 2024-001-Registration (pcaobus.org) at p. 2
[50] Framework, p. 8

quality control).[51] In addition, we note that transparency reports already provide this information, and the PCAOB can easily obtain the information from firms in the inspection process; we question, therefore, the utility (and resultant cost) from providing duplicative (and in some cases triplicative) disclosures.

- **Granularity of Disclosures**. There are certain elements of the proposed governance reporting requirements that would mandate disclosure of granular operational details for which the Board has provided no evidence either of utility or decision-usefulness. These include all direct reports to the principle executive officer, the names of the individuals in the roles described in paragraph .12 of QC 1000 and the "processes that would govern a change in the form of the organization." Regarding the latter item, in addition to the excessive granularity, these processes can be complex and may require significant context to be fully understood. We also question whether this data request falls outside the Board's authority. Rather than requiring a prescriptive list of granular disclosures, we recommend that the Board consider a principles-based approach that will achieve its objective, similar to the approach already taken by firms in their transparency and audit quality reports. Should the Board find it necessary to do so, follow-up dialogue and requests can be made as part of the inspection process.

Finally, we recommend that the Board consider the unintended consequences certain of these disclosures could have on smaller firms and their ability to compete in the public company audit marketplace. For example, the Proposal would require firms to disclose whether they have an

> "external oversight function for the audit practice composed of one or more persons who are not a partner, shareholder, member, other principal, or employee of the firm and does not otherwise have a commercial, familial, or other relationship with the firm that would interfere with the exercise of independent judgment with regard to matters related to the QC system and, if so, the identity of the person or persons and an explanation for the basis of the firm's determination that each such person is independent (including the criteria used for such determination) and the nature and scope of each such person's responsibilities."[52]

It should be noted that not all firms have such functions, nor are all firms required to have such functions based on the requirements in the New QC Standard. Disclosure by those firms that do not have such functions when not required to, may put those firms at a competitive disadvantage in the public company auditing arena. Accordingly, we recommend the Board consider tiered requirements under which smaller firms would be required to disclose a reduced set of items.

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[51] As noted in the CAQ's May 22, 2024, comment letter, 60 days is not a sufficient time for us to weigh and consider the proposed requirements in conjunction with the interrelated impact of recently adopted standards. This is why we also requested the PCAOB delay f sending the 19b-4 filing to the SEC on QC 1000 and AS 1000 by at least 45 days as there are ways in which this Proposal interacts with QC 1000 and AS 1000 that require us to study and consider the effects in combination.

[52] Proposal at 29.

3. Network Information

The Proposal would amend Form 2, Item 5.2 to require a more detailed description of network arrangements, including describing the legal and ownership structure of the network, network-related financial arrangements of the registered firm (e.g., loans and funding arrangements to or from the network member firm), information-sharing arrangements between the registered firm and the network (including both sharing of such information as training materials, audit methodologies, etc. and sharing of audit client information), and network governing boards or individuals to which the registered firm may be accountable. As proposed, these disclosures would be made available to the public.

While the Proposal indicates why this information may be of interest to the Board, it fails to definitively describe *how* the information could be utilized in its regulatory function. Moreover, it is even less clear how these public disclosures would provide decision-useful information to audit committees, investors, or other stakeholders and the Board has shown no evidence it would be so. In addition, to likely becoming boilerplate over time, we are concerned with the implications of providing granular details of network arrangements including, for example, highly sensitive financial relationships between firms, and information sharing arrangements, especially since the Proposal indicates that such disclosures would not be afforded confidential treatment. It also would involve public sharing of confidential information regarding firms that are part of a network but not registered with the PCAOB and are thus beyond the Board's jurisdiction.

In addition to privacy concerns, disclosure of highly sensitive information could have legal or regulatory implications, including in jurisdictions outside the US that may have differing/complex laws. The increase in potential legal liability and financial risks for firms do not appear to have been contemplated in the Board's economic analysis. In lieu of prescriptive requirements that lack clear purpose and value to intended users, we recommend the Board take a principles-based approach, requiring a description of the network that provides information to investors, audit committees and other stakeholders regarding the network-related resources available to the registered firm, as well as related governance and oversight considerations impacting audit engagements performed by the registered firm.

4. Special Reporting Requirements

The Proposal would amend Form 3 to (1) shorten its reporting deadline to 14 days (from 30) after the triggering event occurs, or more promptly as warranted, and (2) impose a general special reporting obligation (on a confidential basis) for any event or matter that poses a material risk, or represents a material change, to the firm's organization, operations, liquidity or financial resources, or provision of audit services. We have the following concerns regarding these proposed provisions:

- We question the rationale for shortening the deadline to 14 days and question whether there is evidence to demonstrate that the current timeline is insufficient.

- The proposed shortening of the Form 3 deadline will be especially challenging for non-US firms that often need to obtain advice about whether an event qualifies for reporting on Form 3, because not all countries' legal systems align to the items specifically required by PCAOB Form 3. Non-US firms also often will need to seek legal advice about the potential confidential nature of the events, in some cases followed by a legal opinion to support a confidentiality request.

- The required reporting should only apply to events/impacts that have actually taken place, not those "reasonably likely" to happen.

- The Proposal contains a broad materiality threshold for the reporting of certain triggering events, with the implication that such reporting applies to all events impacting the operations of the entire firm beyond its public company audit practice. We question the PCAOB's authority to require disclosures in areas beyond the firms' public company audit functions. Consistent with its mandate to regulate the public company audit function of firms, the PCAOB should focus its disclosure requirements to events that have an impact on the firm's ability to perform quality audits of issuers and as such should not extend to areas beyond the Board's jurisdictional authority.

- Although the Proposal provides a broad description, it is unclear what "or more promptly as warranted" would mean in practice. We recommend that the Board either eliminate this stipulation or provide additional guidance and consultations to assist firms in their determination of when and how to comply.

- The PCAOB should not impose reporting requirements for information whose use is not clear. For example, it is unclear how the PCAOB would utilize certain disclosures that are being proposed. To illustrate, it is not clear what the Board will do with information relating to insurance claims, particularly if there are confidentiality concerns from the perspective of the insurance company. The Proposal would mandate disclosure of a wide range of highly confidential information for an unclear purpose.

- Finally, we note that the revised rule is not clear regarding the confidentiality of items reported under this provision, despite statements in the Release that they would be reported confidentially. We recommend that Part VIII of the rule included in the Appendix clearly state that these disclosures will be afforded confidential treatment. The PCAOB also should ensure that the proposed checkbox for Item 8.1 is non-public, or delete the checkbox requirement, to preserve confidentiality.

5. Cybersecurity Disclosures

A. Cybersecurity Incident Reporting

The Proposal would revise Form 3 to require the reporting (on a confidential basis) of significant cybersecurity incidents within five business days (after the firm determined it to be significant). "Significant cybersecurity incidents" are defined as:

> "those that have significantly disrupted or degraded the firm's critical operations, or **are reasonably likely to lead** to such a disruption or degradation; or those that have led, **or are reasonably likely to lead**, to unauthorized access to the electronic information, communication, and computer systems (or similar systems) ("information systems") and networks of interconnected information systems of the firm in a way that has resulted in, or is reasonably likely to result in, substantial harm to the audit firm or a third party, such as companies under audit **or investors** . . ."[53]

Although we agree that cybersecurity incidents have the potential to cause substantial harm to the audit firm and generally support this section of the Proposal, we have the following concerns:

- **Inconsistency with other applicable laws and regulations.** Although the Proposal asserts that the largest firms "already have systems for monitoring and responding to the occurrence of cybersecurity incidents,"[54] this statement does not take account of the fact that firms have such systems in part because they are already subject to other established cybersecurity incident reporting regimes (in addition to other proposed regimes that are anticipated to be adopted soon), certain of which have been expressly authorized by federal and state legislative mandates. Additionally, issuers themselves are now subject to SEC cybersecurity reporting requirements. Reporting under these regimes occurs using definitions and reporting thresholds that are different from those contained in the Proposal. This includes FBI guidance on how issuers can seek a disclosure delay where there are national security or public safety concerns.[55] The proposed reporting requirement also does not take into account that a PCAOB incident reporting requirement may conflict with issuer reporting obligations about cybersecurity incidents at firms that impact them. Therefore, if the Board were to proceed to impose an independent cybersecurity reporting obligation on registered firms that requires the reporting of cybersecurity incidents based on a framework different from those which are currently applicable to portions of the audit profession, this approach could lead to significant confusion among security professionals regarding the circumstances in which a reporting requirement is triggered – and possibly conflicting requirements. Before the Board takes

[53] Proposal at 40 [Emphasis added].
[54] Proposal at 80.
[55] FBI Guidance to Victims of Cyber Incidents on SEC Reporting Requirements — FBI

such action, we recommend it consider the costs and benefits of an independent, and potentially incompatible, PCAOB reporting regime.

- **Application Beyond Public Company Audit Function.** The Proposal would require disclosure of cybersecurity incidents that "result in, substantial harm to the audit firm or a third party…."[56] Incidents may occur that have no impact on the firm's ability to perform quality public company audits. We recommend the Proposal be revised to clarify that, consistent with the Board's jurisdictional authority, the required disclosure of cybersecurity incidents applies only to those incidents that impact its ability to audit public companies and SEC-registered broker-dealers.

- **Five-Day Reporting Deadline.** The Proposal would require firms to report significant cybersecurity incidents on Form 3 within five business days of determining that they are significant. We have concerns about the ability to assess the ramifications of a breach and provide meaningful disclosures in such a short timeframe. We recommend the Board consider aligning the reporting timeframe with the reporting period for Special Reporting on Form 3.

- **"Reasonably Likely" Reporting Threshold.** As indicated above, the Proposal would require the disclosure of significant cybersecurity incidents that are "reasonably likely" to lead to "disruption or degradation [of critical operations]" or "unauthorized access . . ." We are concerned this threshold will result in significant overreporting and believe the wording "reasonably likely" should be omitted from the definition of significant cybersecurity incidents, such that incident reporting would be required only with regard to disruption, degradation, and unauthorized access events that *have resulted in a significant disruption or degradation of the firm's critical operations*.

- **Uncertainty Regarding Investor Harm Analysis.** The Proposal would require reporting when an incident appears reasonably likely to substantially harm either the audit firm itself or "a third party, such as companies under audit or investors." We agree that, when a cybersecurity incident occurs at an audit firm, the potential effect on the company under audit will be an important aspect of the firm's analysis. In most cases, any harm to investors in that company would likely be derivative of the harm to the company itself. As a result, it appears unlikely to us that non-derivative investor harm will regularly be one of the effects that drives the reporting requirement. To the extent that the Board envisions particular non-derivative harms to investors that it expects audit firms to consider regularly as part of their analysis, we encourage the Board to identify those potential harms.

- **Checkbox on Form 3.** We note that proposed Part IX, Item 9.1 would require firms to check a box if a cyber incident (as defined above) has occurred.[57] The proposed rule text

[56] Proposal at 40.
[57] Proposal at xiv.

is not clear as to whether this checkbox would be afforded confidential treatment. We recommend that the Board clarify that this checkbox would be considered confidential, as making this information public would undermine the confidentiality of the reports and likely confuse readers who would not be provided any information on such breaches.

- **Clarity Regarding *Sufficient Information.*** We note that the Proposal would require the reporting of triggering events to "include sufficient information for the PCAOB to understand the nature of the incident and whether regulatory follow-up is warranted."[58] Although the Proposal provides a list of items that could be included, it is not an exhaustive list. We recommend that the Board clarify what "sufficient" entails and provide illustrative disclosures to assist firms in determining what disclosures are expected, including an acknowledgment that some of disclosures provided (e.g., the effect of the incident on the firm's operations) are estimates, especially so early after the incident.

B. Cybersecurity Policies and Procedures

The Proposal would revise the Annual Report Form to require a brief description of the audit firm's policies and procedures, if any, to identify, assess, and manage material risk from cybersecurity threats. The Proposal states that the requirements are not intended to elicit detailed, sensitive information but rather to inform the PCAOB, investors, audit committees and other stakeholders of the firm's general policies and procedures. We agree with the Proposal regarding the importance of cybersecurity policies and procedures, and we believe the proposed brief disclosure requirements are reasonable.

6. Updated Description of QC Policies and Procedures

The Proposal would create a new form*, Update to the Statement of Applicant's Quality Control Policies and Procedures Form* (Form QCPP) which would require firms that registered with the Board prior to the date that QC 1000 became effective to submit an updated statement of the firm's quality control policies and procedures pursuant to QC 1000.

This disclosure requirement would apply to all firms, regardless of size and number of issuer audits they perform. As such, the 49% of firms registered with the PCAOB that are inactive would be required to record and disclose their policies and procedures that conform with QC 1000. The Proposal cites the rationale for this requirement as to "increase transparency to investors and audit committees, who could then evaluate whether and how firms are addressing QC 1000," yet this statement does not specify how they would evaluate and what they would do with this information, and does not explain the value of reporting by inactive firms that are not performing any public company audits and would not have audit committees or investors that would use that information. We recommend that the Board reconsider the application of these reporting

[58] Proposal at 40.

requirements for smaller firms, particularly inactive firms.[59] In this vein, the Board should consider requiring inactive firms to file Form QCPP only upon taking on an audit of an issuer or broker-dealer. Such an approach would be analogous to the SEC's requirements for newly registered companies, in which companies become IPO-ready but do not file registration statements until they access the capital markets.

Conclusion

As discussed throughout this letter, the CAQ has serious concerns regarding numerous aspects of this Proposal. Before proceeding, we urge the Board to:

1) Demonstrate its statutory authority to require the disclosures suggested in the Proposal or, where such authority is not demonstrable, amend the Proposal to conform to what is clearly within the Board's statutory mandate.
2) Fully explain the rationale for the disclosure overload that will inevitably result from the proposed disclosure requirements, including *how* the Board will use the disclosures in its mandate to oversee issuer and broker and dealer audits and protect investors and why it is more effective to obtain the information in public disclosures rather than through the inspections process, which would address concerns regarding confidentiality.
3) Demonstrate the decision-usefulness and utility of the proposed disclosures to the Board, audit committees, investors and other stakeholders.
4) Demonstrate that these benefits outweigh the substantial cost of aggregating and reporting the required disclosures.
5) Consider taking a holistic view of the patchwork quilt of disclosures that have evolved over the years to ensure consistency and eliminate costly redundancies.
6) Consider the *cumulative effect* and resultant costs of recent PCAOB regulatory actions to audit firms, issuers and ultimately investors and consumers.
7) Consider the consequences of these burdensome requirements on smaller firms. If the Board continues with requirements as proposed, we strongly recommend it include reporting thresholds that would consider a) the size of the firm, b) the number of reports issued for issuers and broker dealers and c) the relative size of its public company audit practice as a percentage of its overall practice.
8) Perform outreach and pilot testing in order to fully understand a) the desirability and utility of the additional reporting requirements to stakeholders,[60] b) the implications to the operations and viability of smaller audit firms and c) the cost and impact to Smaller Reporting Companies (SRCs), Emerging Growth Companies (EGCs) and broker-dealers, as well as private entities hoping to access the capital markets.

[59] See Christina Ho's dissent to the adoption of the Final QC rule, in which she expressed concern regarding the requirement for inactive firms to design a QC system that complies with QC 1000.

[60] This process should include considering how stakeholder reporting needs may differ for firms of different sizes which could assist the PCAOB in tailoring the requirements to user needs while also making them more scalable.

CAQ

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The CAQ appreciates the opportunity to comment on the Proposing Release on Firm Reporting, and we look forward to future engagement. As the Board continues to gather feedback from other interested parties, we would be pleased to discuss our comments or answer questions from the Board regarding the views expressed in this letter. Please address questions to Annette Schumacher (aschumacher@thecaq.org) or Dennis McGowan (dmcgowan@thecaq.org).

Sincerely,

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cc:

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