



THE AUDIT COMMITTEE COUNCIL

February 3, 2025

By email: rule-comments@sec.gov

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: SECURITIES AND EXCHANGE COMMISSION [Release No. 34-101724; File No. PCAOB-2024-06] Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Firm and Engagement Metrics; PCAOB Rulemaking Docket Matters No. 041; and SECURITIES AND EXCHANGE COMMISSION [Release No. 34-101723; File No. PCAOB-2024-07] Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Firm Reporting; PCAOB Rulemaking Docket Matters No. 055.

Dear Office of the Secretary:

This letter represents the views of the Audit Committee Council (ACC)¹ regarding the final rules (Final Rules or Adopting Release) adopted by the Public Company Accounting Oversight Board (PCAOB or the Board) on November 21, 2024 (File Nos. PCAOB 2024 – 06 and PCAOB 2024 – 07) and filed with the Securities and Exchange Commission (SEC or Commission) on November 22, 2024, in Release Nos. 34-101724 and 34-101723 related to Rules on Firm and Engagement Metric and Firm Reporting.²

It is not in the public interest for the SEC to approve these Final Rules, nor would doing so further the protection of investors.

In furtherance of the comment letters submitted by the Center for Audit Quality (CAQ) to the Commission related to these Final Rules,³ in this letter we communicate our concerns related to the PCAOB Proposals (PCAOB Releases 2024-002 and 2024-003 or Proposals)⁴ that were not adequately addressed in the Final Rules adopted by the Board and our concerns related to the SEC's obligation to conduct economic analysis.

A quality audit protects investors and contributes to trust in capital markets. Audit committees are an important part of the financial reporting ecosystem and contribute to audit quality. The ACC supports transparency related to the audit process. It is not clear that the requirements of the Final Rules for audit firms to provide information at a firm or engagement level have a clear purpose in support of audit quality. Further, it is unclear whether the benefits of these additional regulations outweigh their costs.

Firm and Engagement Metrics

We do not support public disclosure of engagement-level metrics as required by the Final Rules. We support an alternative approach that focuses on discussion related to certain engagement-level metrics with each audit committee. We are concerned that certain engagement and firm-level metrics will be

¹ The Audit Committee Council is an independent advisory group comprised of active audit committee members on public company boards.

² See [SEC Release No. 34-101724](#) and [SEC Release No. 34-101723](#).

³ See CAQ comment letters to the Commission dated [January 2, 2025](#) and [December 26, 2024](#) related to Firm and Engagement Metrics and Firm Reporting Final Rules, respectively.

⁴ See [PCAOB Release 2024-003](#) and [PCAOB Release 2024-002](#) dated April 9, 2024.

misinterpreted, and auditors preparing written narratives that attempt to guess and address a wide range of questions will add significant costs that will not meaningfully improve audit quality. The reporting of engagement-level metrics could also be in tension with client confidentiality obligations.

We are concerned that the costs to comply with the Final Rules will far exceed the benefits. Extensive education will be needed of investors and financial statement users to help them understand the disclosed metrics. The one-size-fits-all approach in the Final Rules will make it difficult to compare firms and engagements. For this reason, we suggest a more robust dialogue with audit committees as they are better informed about such matters.

We refer your attention to the analysis submitted to the Board as part of the CAQ's [supplemental letter](#) dated August 1, 2024, with input gleaned from two surveys – one of 250 audit committee members and one of 100 investors – which gathered data and highlighted five key findings:

1. More research is necessary to establish whether evidence supports the need for and benefits of proposed metrics.
2. Audit committees and many investors already have the information they need.
3. Any reporting should be voluntary.
4. Any changes to the PCAOB's standards should promote auditor-audit committee discussion.
5. A majority of investors and audit committee members are of the view that the PCAOB's auditing standards and rules have kept pace with change and require only targeted updating.

We agree with these findings based on our experience.

We find it problematic that one of the two CPA's on the Board did not support the adoption of the Final Rules. Board member Ho's [dissent](#) referred to the disastrous roll-out of AS 2. These Final Rules could suffer a similar fate.

We also agree with Board member Ho's discussion of audit committee needs. In her statement, she states:

“Now, the economic analysis does discuss the audit committee comment letters, but it does so in a result-oriented manner. For example, the economic analysis states that “37 percent of 142 [audit committee] respondents indicated that the reporting requirements will be useful to the audit committee in exercising its oversight role and 63 percent of the respondents indicated that the reporting requirements will not be useful.” Those percentages are accurate, but the economic analysis blithely shrugs off the unequivocal views of a near super-majority of 63% of audit committee members who do not believe the mandatory reporting requirements will be useful. First, the economic analysis states that “commenters did not explicitly disaffirm the potential uses.” If 63% of audit committee members surveyed state that the proposed reporting requirements will not be useful to them, that reads like an explicit repudiation. Ask anyone if they consider a 37% approval rating to be an affirmation or a repudiation. Second, the economic analysis states that the PCAOB does “not rule out the possibility that investors or audit committees could have future needs for the required disclosures” Third, the economic analysis states that “audit committees may come to appreciate the accessibility and comparability of the required disclosures” These latter two statements are patronizing because the PCAOB is telling audit committees (and investors) that the PCAOB knows better than them about what they need. It's like me telling my child about her piano lessons, “you'll thank me later.” But the big difference here is: (1) the PCAOB is neither the parent nor the regulator of audit committees; (2) audit

committees are not children; and (3) the PCAOB does not know better than audit committees about their current or future needs...”

Firm Reporting

There has not been sufficient public discussion on the rule. Chair Williams recently characterized the PCAOB’s adoption of Firm Reporting as “...the PCAOB carrying forward recommendations that have been talked about for 16 years”⁵ – likely in reference to the 2008 recommendations from the Treasury’s Advisory Committee on the Auditing Profession (ACAP). While ACAP did make numerous generic recommendations for the auditing profession, its recommendations were not to the same extent as those adopted in the Final Rules. For example, concerned with the risk of firm failures, ACAP recommended that the PCAOB monitor potential sources of *catastrophic risk* faced by public company auditing firms. The Final Rules go beyond this recommendation, requiring disclosure of “*any event* [emphasis added] or matter that poses a material risk, *or* [emphasis added] represents a material change, to the firm’s organization, operations, or liquidity that will affect the provision of audit services.”⁶ Many of the events required to be reported to the PCAOB in the Final Rules are not examples of events that would threaten the firm’s existence.

Additional stakeholder outreach and discussion would lead to a better outcome. For example, commenters on the proposed rule raised a number of concerns regarding the duplication of other PCAOB reporting requirements. While the Final Rules eliminate some proposed governance disclosures, other duplicative disclosures, including the disclosures of individuals in the roles described in paragraph .12 of QC 1000, remain. Further, the Firm Reporting Adopting Release acknowledges that such information will most likely be voluntarily disclosed by firms (in addition to the required disclosures in Form QC). Given more time on this rulemaking process, a better approach to firm reporting could be developed, rather than the current patchwork approach.

As the Commission gathers feedback from other interested parties, we would be pleased to facilitate a meeting of the Audit Committee Council with the Commission regarding the views expressed in this letter. Please address meeting requests to hello@thecaq.org.

Sincerely,

Members of the Audit Committee Council

cc:

SEC

Mark T. Uyeda, Acting Chair
Caroline A. Crenshaw, Commissioner
Hester M. Peirce, Commissioner
Ryan Wolfe, Acting Chief Accountant

⁵ Ibid.

⁶ See page 63 of [PCAOB Release 2024-13](#).