



December 24, 2024

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

RE: File Number PCAOB-2024-06, Notice of Filing of Proposed Rules on Firm and Engagement Metrics and Related Amendments to PCAOB Standards

Dear Ms. Countryman:

We appreciate the opportunity to comment on SEC Release 34-101724, *Notice of Filing of Proposed Rules on Firm and Engagement Metrics and Related Amendments to PCAOB Standards* (the “PCAOB adopting release” or “PCAOB Release 2024-012”), which includes amendments to the PCAOB’s rules and reporting forms to require reporting of specified firm-level and engagement-level metrics (the “PCAOB final rules”).

We have provided feedback to the PCAOB (or “the Board”) in response to its initial 2015 concept release and its proposed rules earlier this year.¹ As we have expressed to the PCAOB, we are committed to promoting audit quality and transparency about our audit practice and are supportive of efforts to develop a potential portfolio of quantitative measures related to public company auditing.

We believe that providing transparency about our work and the health of our audit practice, including many of the factors we consider in evaluating how we are measuring up to our quality expectations, is important, which is why we publish detailed information in our *Audit Quality Report*² (“AQR”). Despite this strong belief, we are unable to support SEC approval of the PCAOB final rules because the prescribed, static form of the PCAOB’s final metrics may result in investors and other stakeholders forming inappropriate conclusions about audit quality based on incomplete information. In addition, the PCAOB adopting release:

- overstates the expected benefits, particularly the usefulness of the information in decision making by investors, audit committees, and other stakeholders; and
- understates the cost to gather and prepare the metrics required by the PCAOB final rules – costs that are compounded by the lack of reasonable de minimis thresholds or materiality considerations.

Further, although the PCAOB made certain improvements to the metrics from those proposed, the PCAOB adopting release does not adequately address other significant concerns raised. In particular, the PCAOB did not give sufficient consideration to alternatives to the public reporting of engagement-level metrics, including the potential for the PCAOB to work together with the SEC to evaluate whether there are opportunities to leverage or enhance the audit committee’s existing role in overseeing audits, which

¹ See our [comment letter](#) on PCAOB Release 2024-002, *Proposing Release: Firm and Engagement Metrics* (the proposed rules).

² A copy of our 2024 AQR is available [here](#). We have published a voluntary annual AQR for more than a decade, and for the past five years we have issued a mid-year update describing noteworthy developments following publication of the annual report.



may include the consideration of firm-level or engagement-level metrics. Audit committees are better placed than other stakeholders to consider metrics related to the firm or engagement. Extensive other information is known or made available to an audit committee, and it has ongoing discussions with the auditor during the performance of an audit that would be necessary to put engagement metrics in the proper context.

Prescriptive, form-based reporting of a static set of metrics will be costly and will not provide meaningful information to assess the quality of audits or drive accountability.

While we appreciate the desire expressed by some investors for more transparency into the conduct of the audit, prescriptive, form-based reporting of a static set of eight metrics (along with contextual information that is unreasonably limited by the PCAOB's final rules) will not provide investors the information necessary to meaningfully assess the quality of audits or drive accountability among auditors and audit committees. It is more likely that the PCAOB's approach will lead investors to speculate on audit quality and auditor or audit committee performance using quantitative statistical relationships that neglect and undervalue more important, incalculable, elements of audit quality – potentially forming inappropriate conclusions or inappropriately relying on such data to inform decisions. Although standardized publicly available metrics will make it easier to perform quantitative comparisons across audits and audit firms, the lack of necessary qualitative context and the static nature of the metrics do not allow for consideration of increasingly dynamic factors such as the accelerated use of technology and changes in regulation. This will make it more difficult to observe meaningful trends over time, which is likely to lead to diminishing informational value and increasing risk that users of the information on Form AP and Form FM will form inappropriate conclusions about audit quality based on incomplete information.

In October, we released our 2024 AQR, which describes specific actions we have taken to achieve our quality objectives over the past year and provides insight into over 20 related data points. We maintain the AQR on our public website and share it directly with our audit clients' audit committees to support their understanding of our system of quality control. The data points included in our AQR are similar in nature to those included in the PCAOB's final rules. However, they serve to illustrate and draw attention to the qualitative considerations presented within the AQR, including changes in the environment in which we and the companies we audit operate, matters impacting the profession and our network, and changes within our audit practice and firm (e.g., changes to our delivery models or the technology used by our engagement teams). Further, while we consider similar data points in our analyses of quality drivers (as described on page 48 of our 2024 AQR), we do not rely solely on these simple quantitative amounts in assessing what influences audit quality. Rather, through efforts to interview engagement teams and review audit working papers, we also identify and assess qualitative factors that directly influence audit quality on a particular engagement.

Our past experience preparing the data points included in our AQR also informs our observations related to the PCAOB's economic analysis and our conclusion that the potential costs have been significantly understated, as described further below. Gathering and presenting this information in the precise and nuanced manner required by the PCAOB final rules will result in resource requirements and costs that far outweigh the potential benefits and are not comparable to the past implementation of existing required reporting requirements, such as critical audit matters ("CAMs"). In addition, the PCAOB's decision to reject recommendations to establish reasonable de minimis thresholds or materiality considerations in Form AP or Form FM, despite compelling comments it received on that point,³ will merely compound those costs further. Yet the economic analysis does not address this issue.

³ See, for example, page A7 of our June 7, 2024 comment letter on PCAOB Release 2024-002.



To achieve the PCAOB's objective of enhancing accountability and supporting audit quality, the PCAOB's final rules would need to be designed with a greater focus on those with direct⁴ auditor oversight responsibilities. Engagement-level metrics should be designed for use by audit committees as the most informed and most appropriate users of the information given their oversight responsibilities and their ability to engage in meaningful discussion with auditors regarding any such metrics, including how they relate to the issuer's circumstances. The insights gained from these communications could in turn inform enhanced disclosures related to the audit committee's oversight of the auditor (e.g., the audit committee report in the proxy statement) that would provide investors with more relevant and decision-useful information about the judgments the audit committee made in evaluating its auditor and deciding whether to re-appoint the firm. Yet, the PCAOB's final rules do not require communication of metrics to audit committees.

By instead focusing on broadly defined potential use by a relatively small number of investors, the PCAOB's final rules serve as a data gathering and compliance exercise that requires an unwarranted level of precision and cost. While the PCAOB adopting release states that the investors who are "more likely to use the final metrics... own or manage roughly 25% of US equity capital,"⁵ the cost to gather and prepare the metrics will ultimately be borne by issuers and investors "representing 99% of the total market capitalization of issuers reporting on Form 10-K and Form 20-F."⁶ The disproportion in cost is even more pronounced when considered with potential use that is not well defined or understood.

Even with time consuming and costly efforts to hire new resources and centralize and automate the gathering and preparation of the data at the lowest measurable unit (i.e., hour incurred) and in the very specific and nuanced manner required, individuals with the right experience and authority at the firm and engagement levels will need to oversee the gathering of data, review the data and assumptions used in the calculations, and assess and address the risk of the most minute error to avoid potential implications of not fully complying with the PCAOB's final rules. At the engagement level, this could potentially impede rather than benefit audit quality, as experienced members of our audit teams devote time to focus on these additional administrative tasks during the critical completion phase of the audit (which includes activities such as assessing the overall presentation of the financial statements, evaluating the impact of misstatements and control deficiencies identified, and forming an opinion). Further, notwithstanding these efforts, the lack of reasonable de minimis thresholds or materiality considerations creates an unnecessary risk that de minimis errors in preparing Form AP or Form FM would inappropriately compromise confidence in audit quality or audit committee or auditor performance, even though such insignificant errors bear no relation to audit quality.

⁴ PCAOB Release 2024-012, page 166, refers to the audit committee, noting that it is "statutorily entrusted to appoint, compensate, and oversee the work of the auditor" and page 167 states that "investors have an important, albeit indirect, role overseeing the work of both the auditor and the audit committee."

⁵ PCAOB Release 2024-012, page 161, acknowledges that "Based on our review of academic literature and our consideration of costs, we believe that individual retail investors will be less likely to use the final metrics than institutional investors" and "Therefore, this research suggests investors who are more likely to use the final metrics ... to inform their capital allocation decision-making own or manage roughly 25% of U.S. equity capital. However, we note that by investing in proportion to the market value of a company, passive investors freeride on the decisions of the active investors, thus amplifying the effects" In addition, footnote 251 on page 175 states: "We note that research also indicates that retail investors may not necessarily use information regarding an audit firm in their decisions to vote on a proposal to ratify the appointment of the firm."

⁶ PCAOB Release 2024-012, page 126, states: "As stated in the proposal, we estimated that the firm level reporting requirements will apply to approximately 210 firms, including 22 of the top 25 U.S. firms by total firm revenue, and all of the 2022 PCAOB annually inspected firms that continue to audit issuers, and that the proposed engagement-level reporting requirements would apply to approximately 3,400 issuer audits, representing 99% of the total market capitalization of issuers reporting on Form 10-K and Form 20-F."



While the PCAOB adopting release and comments by the Board repeatedly emphasize that the PCAOB's final rules are the result of a process that has extended over at least 10 years,⁷ we are unaware of any direct outreach to the audit firms in developing either the PCAOB's proposed or final metrics to better understand and consider the challenges and concerns raised in audit firm comment letters. The lack of engagement with firms calls into question the sufficiency of the economic analysis, as the costs appear to be not well understood and significantly underestimated.⁸

The pace of change in the audit environment and profession has continued to increase, particularly over the past five years. Our AQR, much like the report(s) of other firms, describes the many changes that have taken place in recent years and the impact on the conduct of our audits, with the intent of helping stakeholders, such as audit committees and investors, understand how we have responded to risks and opportunities related to audit quality. Yet certain investors dismiss these reports as uninformative marketing materials because they do not include standardized metrics⁹. Based on this, and an assumption that audit firms are not motivated to do so,¹⁰ the PCAOB chose not to engage with audit firms to determine a workable path forward to provide investors with data of greater perceived informational value (that, for example, is aligned with the way firms operate and are managed and is responsive to changes over time) at a more reasonable cost. Instead, the PCAOB, under the pressure of longstanding requests from certain more vocal investors, undertook a significantly accelerated process to finalize its proposed rules and mandate the reporting of standardized, static metrics with limited context.

Lastly, although we do not address in detail in this letter, we have noted that the PCAOB's response to comments raised on its proposed rules regarding its statutory authority to require firm and engagement metrics again makes broad, uncorroborated statements about the potential benefits of the PCAOB's final rules,¹¹ while claiming extensive statutory authority to require reporting of these metrics primarily based on what appears to be a very broad interpretation of Section 103 of the Sarbanes-Oxley Act of 2002.¹² We believe the SEC should carefully assess the PCAOB's claims for statutory authority.

The PCAOB's adopting release overstates the potential benefits and understates the cost.

The PCAOB's final metrics will not provide decision-useful information.

The PCAOB adopting release includes statements such as "the metrics, analyzed across firms and over time, will yield important, currently unavailable information that will assist investors, audit committees,

⁷ See, for example, PCAOB Chair Williams's [Statement](#) on Firm and Engagement Metrics Adoption, [Remarks](#) from PCAOB Board Member Stein - Driving Improvement in Understanding Elements of Audit Performance, and PCAOB Board Member Thompson's [Statement](#) in Support of Firm and Engagement Metrics.

⁸ The PCAOB summarily dismissed recommendations to undertake a pilot test of the final rules because: "It would not offer a comprehensive view of the metrics' implications across the entire spectrum of firms and could unduly delay the transparency objectives of the rulemaking." (PCAOB Release 2024-012, page 262) However, this appears to be based on an assumption that the pilot would include a "limited group of participating firms." (PCAOB Release 2024-012, page 261)

⁹ PCAOB Release 2024-012, page 173 states: "Indeed, one commenter said that existing information, including firms' transparency reports, is insufficient and largely unused by the investment community because it is seen as marketing material rather than substantive, actionable data."

¹⁰ PCAOB Release 2024-012, page 164, states: "Furthermore, there are currently insufficient incentives for firms to fully meet the market demand for accurate, standardized, and decision-relevant information."

¹¹ For example, PCAOB Release 2024-012, page 40, makes a conclusory statement, without additional context or support, that "[t]he information required by the metrics will also support our oversight and enhance the reliability of audit performance." See also footnote 83, which references in parentheses the benefits of audit quality rather than the metrics required by the PCAOB's final rules.

¹² PCAOB Release 2024-012, page 39, states: "Although the information we require from registered firms does not appear directly within audit reports, it is comfortably within the ambit of our rulemaking mandate under Section 103—especially given the flexibility inherent in the statutory language."



and other stakeholders in their decision-making, oversight, and evaluation related to audits”¹³ and “[w]e believe the new data points, when analyzed together with the audited financial statements, critical audit matters, auditor tenure, and other information about the firm and the engagement on Form 2 and Form AP, will provide more information about the audit and, therefore, the reliability of the auditor’s report.”¹⁴

Yet, the PCAOB adopting release also includes numerous caveats throughout the document, including:

As a result, the final metrics cannot directly measure audit quality. And they are not intended to do so, as—without additional context—it is unlikely they can be interpreted directly as measurements of audit quality. The final metrics are not intended to imply that an increase (decrease) in a particular metric, or a group of metrics, necessarily relates to an increase (decrease) in audit quality. Lastly, we do not believe that the final metrics, individually or taken together, could be appropriately used in isolation to ascertain audit quality at an audit firm or for an audit engagement. For example, some of the most important elements of a high-quality audit, such as application of due care and professional skepticism, are not capable of being entirely measured and quantified directly.¹⁵

So, what is the important information that investors, audit committees, and other stakeholders will glean from the PCAOB’s final metrics for use in their “decision-making, oversight, and evaluation”, and how will it provide more information regarding the “reliability of the auditor’s report”? Without the necessary context as to those incalculable, yet “most important elements”, the metrics are likely to raise questions for which investors, unlike audit committees, will be unable to obtain answers. For example, investors might wonder why only 65% of the work was performed prior to year end rather than 80% (reported at the firm level) or 75% (reported in another Form AP by the same or different firm). Naturally, that depends on various factors – the PCAOB adopting release suggests it could be due to a “poorly planned audit” or “due to the nature and scope of the company’s business.”¹⁶ But how would an investor know which of these factors it is? How would an investor assess whether there is a risk that an audit was “poorly planned”? And how would an investor know if the result is instead indicative of an effective response from the auditor to a necessary change in the audit plan? Does it make sense to even suggest that investors should make investment decisions using quantitative metrics that can’t provide answers to these questions?

To even begin to make metrics that are informative for decision-making or oversight, audit teams and firms would need to provide a significant amount of contextual information describing nuances and subjective details. Yet in the PCAOB adopting release, a 1,000-character limit on the “optional narrative” remains, and “additional direction” was added that further restricts the narrative that auditors can include by requiring such narrative be “concise and focused on the reported metrics, with a view to facilitating the reader’s understanding of the metrics.”¹⁷ While this may support a reader’s understanding of the reported metric,¹⁸ it will hinder any efforts from audit teams and firms to provide additional

¹³ PCAOB Release 2024-012, page 9.

¹⁴ PCAOB Release 2024-012, page 35.

¹⁵ PCAOB Release 2024-012, page 187.

¹⁶ PCAOB Release 2024-012, page 48.

¹⁷ PCAOB Release 2024-012, page 6.

¹⁸ PCAOB Release 2024-012, page 51, indicates that this additional direction is “an effort to assist firms in making the optional narrative disclosures as helpful and substantive as possible, to help remind firms of their responsibility under QC 1000 [*A Firm’s System of Quality Control*] to produce and report information that is accurate and not misleading, and to reduce the possibility that users will find the narrative confusing or in conflict with the required metrics.” Similar concerns do not exist related to engagement-level communications with the audit committee given its direct oversight of and regular interactions with the auditor and no such limitations exist in AS 1301, *Communications with Audit Committees*. An audit committee uses its own experience and judgments and engages with the auditor regarding the auditor’s performance.



contextual information that could help explain those most important, yet incalculable, elements related to audit quality and auditor performance. Limiting the nature and extent of relevant information that may be provided in response to requests for more information is inexplicable and seems to discourage rather than encourage transparency.

To illustrate, the training metric added to the PCAOB's final rules is limited to "professional development training hours" that are in the US "synonymous with CPE credits as defined by the National Association of State Boards of Accountancy."¹⁹ However, for a variety of reasons, a particular training course, although effective and relevant to an auditor's professional competence, may not award NASBA-approved CPE credits. Understanding the total amount and mix of relevant training, and the design and delivery of that training, can differentiate those audit teams and firms focused on continuous learning and education relevant to their professional responsibilities. Conversely, given existing state licensing requirements that mandate a minimum number of NASBA-approved CPE credits to maintain an active CPA license and the monitoring of compliance performed by state boards of accountancy, there is likely to be less differentiation when comparing the PCAOB's final training metric across audit teams and firms. Therefore, in this simple example, restricting the narrative context that can be provided to a user of the training metric will further reduce its already limited informational value.

The costs of complying with the requirements will exceed any potential benefits.

Our experience with (1) gathering and reporting similar quantitative information on a voluntary basis in our AQR for more than a decade and (2) developing guidance and templates to support our teams in communicating engagement-level metrics when audit committees have interest in receiving such information informs our conclusion that the efforts required to gather and report the PCAOB's final metrics will be overly costly, time-consuming, and burdensome.²⁰ We have observed the following regarding the economic analysis presented in the PCAOB adopting release.

- Although the economic analysis acknowledges that "AS 3101 [*The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*] and the final rules are different in ways that may limit the relevance of the costs of AS 3101 to the potential costs of the final rules,"²¹ it still suggests that the efforts to implement CAM reporting requirements are comparable in terms of "the processes, procedures, and training aspects."²² However, in our experience, the processes and procedures that will be necessary to comply with the PCAOB's final rules will have little similarity to the reporting of CAMs. CAM reporting requirements are almost exclusively qualitative in nature and, rightfully so, are inherently specific to the individual audit. CAM reporting does not require, across hundreds of audit engagements, gathering a significant volume of quantitative data and assessing for completeness and accuracy, developing reasonable estimations of work that has yet to be performed, executing very precise and nuanced calculations, and verifying mathematical accuracy of those calculations – all to the lowest measurable unit (i.e., hour incurred).
- Efforts to centralize or automate the processes necessary to comply with the PCAOB's final rules will be time consuming and costly to implement and could require new information technology systems or tools that are not compatible with systems that better suit the needs of our system of quality control or our business (for example, if industry categorizations do not align to those that

¹⁹ PCAOB Release 2024-012, footnote 123. The National Association of State Boards of Accountancy is also referred to herein as "NASBA."

²⁰ PCAOB Release 2024-012, page 6, states: "We also believe that gathering data and calculating the final metrics, given the subjects they address, will not be overly costly, time-consuming, or burdensome."

²¹ PCAOB Release 2024-012, page 235.

²² PCAOB Release 2024-012, page 235.



the PCAOB requires be used to report industry experience). In turn, these new systems or tools would require technology support, quality controls, and ongoing monitoring to ensure accuracy, completeness, and timeliness of the reported information. The need to prioritize, develop, and implement appropriate technology, tools, methodology, and training to support the collection and reporting of data to the level of precision required will divert resources from other important efforts, including those that could be used to directly support audit quality.

The PCAOB declined to establish reasonable de minimis thresholds or materiality considerations, a decision that will have the effect of compounding costs to comply with the requirements to report firm and engagement metrics – a matter that is not addressed in the economic analysis. Form AP reporting experience has demonstrated that there are significant practical challenges with consistently obtaining accuracy to the lowest measurable unit. Even sophisticated time tracking systems require manual input by the individuals performing audit work, and seeking to control those manual inputs down to the hour will require implementing preventative and detective controls that operate at a level of precision that is not cost effective and will do very little to promote any meaningful understanding of, or benefit to, audit quality.

The PCAOB's final rules disregard the role of both audit committees and firms' systems of quality control in monitoring and mitigating risks to audit quality – making it a compliance exercise intended to meet the expectations of a small number of investors.

Our comment letter to the PCAOB on the proposed rules stressed the importance of both audit committee oversight and a firm's system of quality control in monitoring and mitigating risks to audit quality. However, the PCAOB adopting release dismisses the alternative approach of reporting the metrics to audit committees because it would “not achieve our goals of increasing the information about audit engagements and audit firms available to investors and other stakeholders, and fostering comparability of data through mandated reporting based on common definitions and specified calculations.”²³ The PCAOB adopting release goes further to state that “a non-prescriptive, principles-based approach, whereby firms would potentially develop and discuss different metrics for different audit committees, drawn from different data and based on different definitions and calculations and changing over time, could itself create significant costs and challenges for firms without necessarily contributing to the audit committee's ability to understand the audit it oversees in a broader context.”²⁴

While public reporting of the PCAOB's final metrics will increase the information available to a broad audience, the presumption that information is not understandable in a “broader context” simply because it is tailored to a specific audit is not consistent with our experience in performing required communications with audit committees. For the reasons noted above, the publicly reported metrics will provide little insight into the quality of a particular audit and will have limited utility for decision-making. By not requiring or encouraging the use of these metrics in either audit committee communications or systems of quality control, the PCAOB has implicitly acknowledged that there is insufficient evidence to suggest that the metrics included in the PCAOB's final rules will be effective at driving accountability or supporting audit quality. This means that the costs and effort required to

²³ PCAOB Release 2024-012, page 36. We also note, however, many instances when the PCAOB suggests objectives that go beyond this statement, including on page 3 of the proposing release, which states: “We believe these metrics will provide valuable additional information, context, and perspective on auditors and audit engagements, which can be used by investors, audit committees, and other stakeholders, and which will further our oversight activities. We believe this will advance investor protection and promote the public interest by enabling stakeholders to make better informed decisions, promoting auditor accountability, and ultimately enhancing capital allocation and confidence in our capital markets.”

²⁴ PCAOB Release 2024-012, pages 36 and 37.



prepare Form FM and hundreds of Form APs will, for the foreseeable future, largely constitute a compliance exercise without sufficiently defined benefits to audit quality.

A constructive dialogue with audit committees, audit firms, and investors could facilitate the development of new reporting that would be more consistent with the PCAOB's stated objectives and come at a more reasonable cost. However, the PCAOB dismissed the need for additional stakeholder outreach, citing instead "the lengthy project history ... which includes repeated input over time from our advisory groups, multiple rounds of public notice and comment, study of relevant academic literature, study of voluntary firm disclosures, and consideration of actions taken in other jurisdictions."²⁵ This list does not include, and we are unaware of, any recent, direct outreach to the audit firms that will be required to gather and report this information, despite significant concerns expressed about most of the metrics and how they will be required to be calculated. With more collaborative engagement, we could have shared detailed information that would have allowed the PCAOB to better understand the efforts currently required to gather and report voluntary information in our AQR, including the experiences and lessons learned in publishing the AQR over the past decade, observations from communicating engagement-level metrics at the request of audit committees,²⁶ and the range of issues and challenges related to the PCAOB's approach.

Although the PCAOB states in the adopting release that it does not believe its "investor protection mission would be served by delaying adoption of the final rules,"²⁷ its "investor protection mission" is likewise not well served by the rules as adopted, which will result in unnecessary costs to auditors and the issuers who engage them (costs that, in turn, are borne by investors) to prepare and report the PCAOB's final metrics, which may then be used to form inappropriate conclusions regarding audit quality.

The PCAOB's final rules potentially impede rather than benefit audit quality and require an unwarranted level of precision that will compound costs of compliance and create unnecessary risk.

The PCAOB adopting release makes numerous broad and speculative statements regarding the potential for the public reporting of the PCAOB's final metrics to enhance audit quality by promoting accountability and increasing competition, as well as by creating additional reputational and litigation risk. While influences such as accountability, competition, and reputational risk already exist and are managed by firms, including through their systems of quality control, it is unclear if or how the public reporting of metrics will influence these factors. As noted elsewhere in this letter, if the objective were to support accountability, the PCAOB final rules would focus on those with direct oversight responsibilities, namely the audit committee. Notably, the economic analysis does not present any evidence from the PCAOB, SEC, or others that there are concerns that audit committees today are not able to make informed appointment decisions or that audit committee appointments of audit firms and the non-

²⁵ PCAOB Release 2024-012, page 54.

²⁶ As noted in our comment letter on PCAOB Release 2024-002: "In general, we find that audit committees are more interested in understanding qualitative considerations about the composition of the engagement team and how the engagement team performs and manages work throughout the audit to supplement its understanding of our audit practice gained from our AQR." This view is supported by other comments, including the [June 14, 2024 letter](#) submitted by Tapestry Networks, which notes that "A 'one size fits all' approach could lead to incorrect or inappropriate conclusions" and states: "[s]ome [audit committee chairs] noted that the metrics would inevitably fail to take account of 'intangibles' that are important for decisions. For example, 'I would rather have a great partner spend 30 minutes versus a mediocre partner spend four hours, and that perspective would not necessarily be captured by the metrics.'"

²⁷ PCAOB Release 2024-012, page 54.



binding investor ratification of the appointment proposal are unreliable, unacceptable, or otherwise unable to be made based on the perception of having limited access to sufficient information.

It is concerning that, for both this rulemaking²⁸ and separate rulemaking related to firm reporting,²⁹ the Board asserts that the threat of increased private litigation — including the risk of lawsuits that are known to be “frivolous” — could contribute positively to audit quality. Its flawed reasoning on this point raises additional concerns regarding whether the Board undertook a proper economic analysis in adopting the PCAOB’s final rules. The risk of having to defend frivolous cases does nothing to incentivize firms to enhance their quality, and firms are already well aware of the litigation risks associated with audit work that falls below the applicable professional standard of care. Thus the “benefit” described in the release is phantasmagoric, and the costs — which include diverting resources that could be used to directly support audit quality — are not justified.

While the benefit to audit quality is, at best, unclear, the PCAOB’s unwillingness to consider the use of reasonable de minimis thresholds or materiality considerations in the preparation of Form AP or Form FM will not only compound costs, but will also create unnecessary risks to audit quality. Specifically:

- Regardless of the extent of centralization and automation (or resources added),³⁰ experienced members of audit teams will need to review data inputs for completeness and accuracy down to the hour, estimate hours required to complete work, assess resulting calculations based on very precise and nuanced instructions, and communicate engagement-level metrics during completion of the audit in order to meet the PCAOB’s deadline for filing Form AP. The performance or oversight of these administrative tasks by engagement leaders and managers may divert attention that would otherwise be given to critical completion activities.
- As the information required by Form AP multiplies and the PCAOB continues to take the position that any error in Form AP, regardless of materiality, requires the form to be amended, it

²⁸ PCAOB Release 2024-012, pages 254 and 255 state: “Regarding litigation risk, we agree that plaintiffs’ lawyers may use the final metrics to support their cases. Supporting this view, some research finds that PCAOB inspection reports with audit deficiencies are positively associated with the number of lawsuits subsequently filed against the inspected auditor. However, while we acknowledge this could encourage some frivolous lawsuits, we believe it would largely contribute positively to audit quality as it would create an incentive for firms to produce high quality audits.”

²⁹ PCAOB Release 2024-013, page 164 states: “[P]laintiff lawyers could seek to use some of the required disclosures to support their cases. For example, academic research finds that PCAOB inspection reports with audit deficiencies are positively associated with the number of lawsuits subsequently filed against the inspected auditor. While the required disclosures may not be as clearly linked to legal liability as audit deficiencies and could encourage some frivolous lawsuits, we believe the threat of litigation and reputational risk could largely contribute positively to audit quality because the threat will create an incentive for firms to provide high quality audits. Indeed, we believe the threat of litigation and reputational damage could help drive more competition on audit quality, a criterion that one of the commenters urged us to consider. Moreover, the reporting requirements allow for the confidential reporting of highly sensitive information as material specified events on Form 3 rather than requiring public disclosure. Finally, we also believe that the impact on reputation is central to the intended impacts of the required disclosures.”

³⁰ PCAOB Release 2024-012, page 257 states: “We acknowledge that the final rules could require some engagement team members’ time. For example, some engagement team members may be tasked with gathering information from the engagement team and forwarding it to the national office (e.g., experience, hours). Subject to the audit labor market concerns discussed above, firms will be able to relieve some of this burden by hiring additional staff or by centralizing or automating certain aspects of the implementation effort.” This response does not appear to acknowledge the resource limitations of smaller firm auditors, which were raised in comment letters on the PCAOB’s proposed rules — for example, the [June 18, 2024 comment letter](#) from the American Institute of Certified Public Accountants and the [Comments](#) of the Auditing Standards Committee of the Auditing Section of the American Accounting Association.



is a likely outcome that Form AP corrections will increase in frequency, and the threat of enforcement actions, including sweeps,³¹ may follow suit. Requiring de minimis corrections to Form AP will simply create more unnecessary costs and add to the administrative burden of experienced members of our engagement teams at a time when they are planning or performing the subsequent year's audit. Further, de minimis corrections to Form AP may have the unintended consequence of negatively impacting investor confidence in the audit or audit firm even though they do not reflect, or have any bearing on, the quality of the audit.

The PCAOB adopting release states: “[W]e believe that implementing a materiality or de minimis threshold would introduce unnecessary complexity and uncertainty to the form amendment process and, further, would potentially threaten, or be perceived to threaten, the accuracy and reliability of reported information, thereby undermining the intended purpose of the amendments.”³² But the concept of materiality is regularly applied by issuers in the preparation of financial statements, SEC filings, and other disclosures, as well as by auditors in accordance with the PCAOB’s auditing standards.³³ It is unclear why the PCAOB believes that Form AP and Form FM reporting require a greater level of precision than the financial statements used by investors. To illustrate the unreasonableness of these rules, without a de minimis threshold or materiality considerations, a firm could be required to amend a Form AP that is over a decade old if it becomes aware that there was a typo that resulted in the omission of one hour from a time entry, even though no investor is relying on the related (now very stale) financial statements. In fact, that amendment would be required even if the issuer no longer exists, in which case there are not even any investors left to take note of the amendment.

The impact of the lack of de minimis threshold or materiality considerations in the Form AP and Form FM reporting requirements is exacerbated by the very prescriptive and nuanced nature of the metric calculations. Although we have not completed our analysis of the information included in various places in the lengthy PCAOB adopting release, we anticipate numerous practical challenges to gathering the data required to perform the precise calculations required by the PCAOB’s final rules (e.g., filtering the information for a single engagement in differing ways for engagement-level and firm-level reporting, reconciling industry classifications between the PCAOB final rules and current systems, obtaining data consistently from other auditors, and more). We also continue to have broader questions regarding the application of the requirements, for example:

- Is the intent for firm-level metrics that reference accelerated and large accelerated filers (e.g., partner/manager involvement, allocation of audit hours) to reflect a “roll-up” of the related engagement-level metrics? Or is the intent for the firm-level metric to be calculated separately for the firm reporting period (October 1 to September 30), which will most likely not align to the audit period for engagement-level metrics?
- As many of the PCAOB’s final metrics will require the use of estimates (e.g., determining years of industry experience for our most tenured partners and managers will require an estimate of whether they have met the minimum “250 hours or 25% of hours worked in a year” threshold within that industry each year in their career), are we required or expected to disclose that the

³¹ Over the past few years, the PCAOB has used enforcement sweeps to identify firms that fail to comply with PCAOB reporting requirements, including existing Form AP requirements. In a [news release](#) on November 19, 2024, Robert E. Rice, Director of the PCAOB’s Division of Enforcement and Investigations, stated: “Sweeps are a critical aspect of the PCAOB enforcement program. We will continue to use sweeps – and ongoing monitoring – to identify firms that fail to comply with PCAOB reporting requirements.” The PCAOB’s focus on enforcement, rather than on helping firms identify ways to enhance their quality through interactions with the inspections function of the PCAOB, has resulted in a disproportionate emphasis on finding mistakes that may be of no significance to investors.

³² PCAOB Release 2024-012, page 135.

³³ See AS 2105, *Consideration of Materiality in Planning and Performing an Audit*.



reported amount is based on an estimate and the method of determination? What nature and level of documentation will be required to support these estimates, particularly for periods in a career that precede the individual's time with the reporting firm? What are the key factors to drive consistency in this estimation across firms?

* * * * *

Because of the fundamental concerns described in this letter, we are unable to support SEC approval of the PCAOB's final rules. Before approving final rules, further collaboration with and involvement of audit firms, audit committees, investors, and other stakeholders is necessary, including a more fulsome consideration of potential alternative approaches that could be undertaken by the PCAOB. We continue to believe that more recent, direct engagement with these stakeholders and complementary efforts through collaboration between the PCAOB and SEC would result in an alternative approach that has the potential to deliver information of greater value to investors, with more clearly understood benefits, and at a more reasonable cost.

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions. Please contact Brian Croteau at brian.t.croteau@pwc.com or Tim Carey at d.timothy.carey@pwc.com regarding our submission.

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP