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

24 September 2025

Re: Securities and Exchange Commission Release No. 34-103083 (File No. PCAOB-2025-01), *Public Company Accounting Oversight Board; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Postponing the Effective Date of Amendments to Board Standards, Rules, and Forms Adopted on May 13, 2024*

Dear Ms. Countryman:

Ernst & Young LLP is pleased to provide comments to the Securities and Exchange Commission (SEC or Commission) on the proposed rule change postponing the effective date of the final standard (QC 1000) that was adopted by the Public Company Accounting Oversight Board (PCAOB or Board) on 13 May 2024 (File No. PCAOB 2024–02) and approved by the SEC on 9 September 2024 in SEC Release No. 34-100968, *Order Granting Approval of QC 1000, A Firm's System of Quality Control, and Related Amendments to PCAOB Standards, Rules, and Forms*.

As we have discussed in the feedback provided to the PCAOB throughout the standard setting and implementation process, we believe that a firm's system of quality control (QC) is foundational to audit quality. We continue to significantly invest in a robust system of quality management and our QC 1000 adoption efforts.

Support for postponing the effective date of QC 1000

We support SEC approval of the PCAOB's postponement of the effective date of QC 1000. In our efforts to timely implement the final standard, we have encountered numerous implementation challenges and questions, primarily driven by the significant differences between QC 1000 and the International Auditing and Assurance Standards Board (IAASB) quality control standard, International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1).

Many of these differences have resulted in substantial costs and organization-wide changes that we do not believe benefit audit quality. We also support the Center for Audit Quality (CAQ) comment letter[1] to the PCAOB, which outlines many of the concerns we have encountered in our efforts to implement QC 1000 while also operating a QC system in accordance with ISQM 1.

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1 CAQ comment letter to PCAOB, 23 July 2025.

Support for considering amendments to achieve a risk-based QC standard

We believe the SEC should encourage the PCAOB to reopen QC 1000 for comment. We agree with PCAOB Board Member Christina Ho's recommendation[2] that the Board should "use this one-year extension to consider whether targeted revisions to the QC 1000 standard and related amendments may be appropriate, while at the same time providing technical assistance to firms by answering their specific implementation questions and posting these Q&As on the PCAOB website for the benefit of all stakeholders."

We also agree with the important points made by SEC Commissioner Hester Peirce and SEC Commissioner Mark Uyeda when they both dissented from the SEC approval of the final standard. At the time, both Commissioners voiced concerns that certain provisions of the final standard had not sufficiently been subject to public comment and due process.

Commissioner Peirce highlighted in her statement[3] that QC 1000 "will pose many significant implementation challenges" and rightly pointed to how it has "many prescriptive elements that are not risk-based" and does not "take adequate account of how QC 1000 will interact with other quality control standards from other standard setters." She also noted that the requirements related to the external quality control function (EQCF) "differed materially from what was proposed" and were not subject to due process. Each of these observations has proven true in our experience. We believe that this is the time to correct these issues.

In our experience, there are many areas throughout QC 1000 where the requirements are overly prescriptive. In addition, they do not appear to be grounded in a materiality assessment, which we believe should be foundational in a reasonable assurance standard. We believe the PCAOB should consider various amendments, and we have provided examples of five areas that would be important to amend for the reasons described in this letter.

External quality control function (EQCF)

We have significant concerns with the EQCF provisions, as stated in our previous comment letter to the SEC.[4] We believe the EQCF role provides limited benefit beyond the dedicated monitoring function required under the standard or to the PCAOB's own inspection activities.

We support the promotion of formal structures that provide independent perspectives to firm leadership and believe this objective can be accomplished in a variety of ways rather than exclusively through an EQCF function. For example, independent advisory boards should be included as a permissible approach to achieving the related objectives.

The EQCF provision was neither a logical outgrowth of the PCAOB's proposal nor subject to due process. In addition, recruiting the right talent for this role is costly and its benefits have not been proven by sufficient economic analysis. The required processes for monitoring and remediation and the PCAOB's ability to inspect the firm's QC systems already satisfy the relevant purposes.

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2 PCAOB Board member Ho's statement, 28 August 2025.

3 SEC Commissioner Peirce's statement, 9 September 2024.

4 EY comment letter to the SEC, 26 August 2024.

Both Commissioner Peirce and Commissioner Uyeda specifically highlighted EQCF as an area where the proposal differed significantly from the QC 1000 adopting release. Even with the supplemental guidance provided by the PCAOB about this requirement, challenges in understanding it and implementing it remain.

Evaluation framework

We believe the QC 1000 evaluation framework should be amended to be grounded in a risk-based approach to evaluating a firm's QC system. As written, the more prescriptive requirements in QC 1000 are either (1) not operable in their current state or (2) lead to various unintended consequences and costs that do not benefit audit quality. This includes the threshold for evaluating the effectiveness of remedial actions and the requirement to evaluate for similar engagement deficiencies,[5] among other differences between QC 1000 and ISQM 1. Those differences could lead to overall firm QC conclusions that may differ under QC 1000 and ISQM 1, which could generate significant confusion.

Firms are currently challenged by incremental requirements to apply different terminology and definitions under QC 1000 and ISQM 1 and to perform (and receive) different communications to and from various stakeholders, including other auditors serving on multi-location audit engagements,[6] audit committees, investors and other regulators (due to Article 13 of EU regulation[7] requiring public annual transparency reporting of firms who audit public interest entities).

There is also a significant challenge related to the fact that the overall conclusion required to be communicated in these different situations may necessitate context to be understood by different stakeholders. It should be noted that some QC information is ultimately protected from disclosure to third parties by the Sarbanes-Oxley Act of 2002 (SOX).[8] As part of its reconsideration of QC 1000, the Board should take steps to make sure such protections are not undermined by its communication requirements.

We believe the PCAOB should amend the standard to allow sufficient time for firms to design, implement and test the effectiveness of remedial actions,[9] as well as align definitions and requirements between the frameworks. We believe these amendments would address the risk of confusion arising from the

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5 The prescriptive requirement to evaluate whether similar engagement deficiencies exist on other engagements (QC1000.68d) for all engagement deficiencies is challenging and costly to implement and somewhat duplicative in nature to the more principles-based requirements for firms to perform monitoring of in-process and completed engagements using a risk-based approach.

6 This includes the requirement in QC 1000.68c to communicate engagement deficiencies relating to work performed on other firms' engagements and to take such action as the other firm determines is necessary. This leads to an abundance of information sharing that will take a significant amount of time to evaluate and will often have no relevance to the other audit firms' QC system. This also includes the requirement in QC 1000.53g to communicate the overall conclusion of the most recent evaluation of the QC system that, without further context, would make it difficult to understand and evaluate the impact on the lead audit engagement, unless the conclusion communicated is "effective."

7 Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

8 Some of the same information the PCAOB includes in Part II of their inspection reports (dealing with QC criticisms and potential defects) will be known to the firm and included in their QC system evaluation. Although SOX Section 104(g)(2) forbids PCAOB disclosure of these criticisms unless they are not addressed by the firm, to the satisfaction of the Board, not later than 12 months after the date of the report, the conclusion relying on this information is required to be disclosed to various stakeholders without the appropriate context.

9 The QC 1000 requirement to test remedial actions differs from ISQM 1, which recognizes that remedial actions may take time to operate and provides a framework for a firm to consider whether remedial actions taken up to the time of the evaluation are effective when a remedial action still may need some time to operate.

QC 1000 evaluation framework. Many of these challenges are consistent with the issues raised in our previous comment letters, as well as those from the CAQ. We strongly encourage the PCAOB to reconsider the differences between the ISQM 1 and QC 1000 evaluation frameworks.

Specified operational responsibility roles

We believe the requirements for individuals assigned to the roles specified in QC 1000.12 should be amended to allow for flexibility that would benefit audit quality, particularly the roles related to monitoring and remediation, as well as ethics and independence. The final standard mandates that these roles are assigned to firm personnel. However, the better outcome for smaller firms that are part of larger or global networks may be to assign these roles to individuals outside of the specific member firm based on how they operate their business.

For example, these individuals may have responsibility for these matters at multiple member firms in a specific country, geographic region or other management unit of the network organization. They may not meet the definition of firm personnel, but their assignments often enhance their experience, competence and authority specific to their functional area (e.g., ethics, independence) or provide them with the time needed to carry out their responsibilities effectively.

We recommend revising the final standard, consistent with ISQM 1, to permit the assignment of the roles in paragraph .12 to personnel outside the member firm when such personnel have the experience, competence, authority and time to fulfill their responsibilities, supported by a formal arrangement made by the firm or the firm's network.

Additionally, we suggest amending the final standard to allow more than one individual to share responsibility for each of the roles in paragraph .12, provided the responsibilities are clearly defined. While we agree that responsibility for a specified role should not be delegated, there may be situations where it is beneficial for multiple individuals to share responsibility. For example, firms may assign responsibility for compliance with certain ethical requirements to one person and compliance with independence requirements to another, based on the individual's relevant subject-matter expertise.

Documentation requirements

We believe the QC 1000 documentation requirements and the experienced auditor threshold are too prescriptive, costly and unnecessary to achieve relevant objectives. Based on our experience, the appropriate documentation for the PCAOB to inspect that is related to the effectiveness of our system of QC is the documentation used by our monitoring and remediation functions and processes within the firm.[10] This documentation should also be sufficient for the PCAOB to reach its own conclusions as an alternative to requiring the firm to retain every instance of a quality response operating throughout the evaluation period for the purposes of PCAOB inspection, and in turn retaining this voluminous documentation for seven years. If the PCAOB's documentation requirements were focused on the documentation inspected internally by the monitoring and remediation function, it would help alleviate the onerous volume of documentation necessary to retain.

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[10] In accordance with PCAOB standards, these processes use an appropriate sampling approach to inspect sufficient audit documentation in line with the reasonable assurance objective.

Furthermore, we believe the experienced auditor threshold is unnecessarily prescriptive, and instead a risk-based approach, similar to SEC guidance for issuers,[11] would be appropriate. Additionally, we believe the seven-year archive requirement is excessive and should not be necessary with timely inspections, given the non-public nature of QC system reporting. The QC 1000 documentation requirements also introduce discrepancies compared to ISQM 1 without any clear benefit.

Evaluation date

We recommend the PCAOB allow firms to select their annual evaluation date, consistent with our previous comment letter on the QC 1000 proposal.[12] This flexibility, which is currently afforded under SOX for issuers' assessments on internal control over financial reporting (ICFR), would enable firms to choose the most relevant date based on their unique business considerations, avoiding the cost and complexity of completing two separate annual evaluations at different times of the year.

For instance, we have selected our fiscal year-end date (i.e., end of June) as our annual evaluation date under ISQM 1 because it aligns with our existing business processes, including performance management and timing of annual controls, and avoids unnecessary compression during our busiest times of the year. The member firms of the global EY network have selected a globally consistent ISQM 1 annual evaluation date to enhance the consistency in the application of ISQM 1 by our member firms and, ultimately, enhance audit quality. Further, this flexibility would allow firms to align with the transparency reporting requirements in certain non-US jurisdictions.[13]

Since there is no public reporting of Form QC, we believe there is no need for the PCAOB to have consistent dates across firms for public consistency and comparability purposes. We have found that trying to implement two different evaluation dates under QC 1000 and ISQM 1, or moving our ISQM 1 and transparency reporting date to 30 September, has been a challenging and costly endeavor that does not benefit audit quality.

Stakeholder engagement

We question whether all the necessary revisions can be made and subject to appropriate due process within the one-year postponement period. We encourage the Commission to work with the PCAOB to reinforce the importance of an appropriate process to facilitate two-way communication with stakeholders throughout this period to appropriately revise the standard and support firms' implementation efforts. This would be critical to achieving a final standard that addresses all the necessary amendments and is rooted in the concepts of materiality and reasonable assurance.

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[11] Under Commission Guidance, "Management's assessment must be supported by evidential matter that provides reasonable support for its assessment. The nature of the evidential matter may vary based on the assessed level of ICFR risk of the underlying controls and other circumstances. Reasonable support for an assessment would include the basis for management's assessment, including documentation of the methods and procedures it utilizes to gather and evaluate evidence."

[12] EY comment letter to the PCAOB, 1 February 2023.

[13] Article 13 of EU regulation states, "A statutory auditor or an audit firm that carries out statutory audits of public-interest entities shall make public an annual transparency report at the latest four months after the end of each financial year."

Fundamental to this process, we believe, is the PCAOB's willingness to authorize its Office of the Chief Auditor to formally publish questions received from and answers provided to practitioners throughout its stakeholder outreach. It is important that this written staff guidance is authoritative in nature and can serve as a manual for PCAOB inspection teams, in addition to practitioners. This could be similar, for example, to the Financial Reporting Manual of the SEC Division of Corporation Finance.[14]

Additionally, for questions that are not broadly applicable or based on a firm's facts and circumstances, we believe it is crucial to have a formal mechanism for firms to engage with the PCAOB on interpretative questions and receive timely written responses to interpretations that can be retained in both the audit firm and regulator records. This would help support consistent application over time, given the pervasive and long-standing nature of the conclusions being reached. For example, the SEC staff engages in a consultation process[15] that has effectively achieved a similar objective.

This added transparency would not only help the PCAOB's own inspections team interpret these matters consistently but also provide practitioners from firms of all sizes consistent guidance in many areas where the questions are applicable across the profession. We will continue to work with the PCAOB on the standard's practical interpretation and implementation and remain committed to strengthening our QC system as part of our mission to continuously improve audit quality.

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We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Very truly yours,

Ernst + Young LLP

Copy to:

SEC
Paul Atkins, Chairman
Caroline A. Crenshaw, Commissioner
Hester M. Peirce, Commissioner
Mark T. Uyeda, Commissioner
Kurt Hohl, Chief Accountant

14 SEC Financial Reporting Manual.

15 Instructions for form of delivery and content of correspondence for consultations with the SEC Office of the Chief Accountant.