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By email: rule-comments@sec.gov

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

20 December 2024

Re: SEC Release No. 34-101723 (File No. PCAOB 2024-07), Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Firm Reporting

Dear Ms. Countryman:

Ernst & Young LLP (EY US) appreciates the opportunity to share our views with the Securities and Exchange Commission (SEC or Commission) on the final rule that was adopted by the Public Company Accounting Oversight Board (PCAOB or Board) (File No. PCAOB 2024-07) and filed with the SEC in SEC Release No. 34-101723, Notice of Filing of Proposed Rules on Firm Reporting. We believe the public comment process and the consideration of stakeholder input are essential for rulemaking to advance the SEC's and the PCAOB's statutory mandate effectively and efficiently.

As we have frequently acknowledged, we believe independent oversight of auditors of public companies and broker-dealers under the Sarbanes-Oxley Act of 2002 (SOX) has enhanced audit quality. We continue to agree with the goals of the PCAOB's final rule, including enhanced transparency about audit quality, confidence in the capital markets and oversight of the profession.

We also appreciate the changes that the PCAOB incorporated into the final rule in response to input from commenters, including EY US. However, we still believe the PCAOB has not made an effective case that the rule's benefits outweigh the costs, or that the rule achieves the goals discussed above.

We also do not believe the PCAOB has clearly articulated the direct link between the reporting required under the rule and the PCAOB's oversight as laid out by Congress in SOX. In addition, we do not believe the PCAOB has demonstrated that the final rule is consistent with SOX and appropriately serves the public interest. Therefore, we respectfully request that the SEC disapprove the rule.

We summarize several of our concerns with the final rule below and request that the SEC consider our 7 June 2024 comment letter to the PCAOB on its proposed rule on firm reporting. In our letter, we discussed other concerns, including the proposed rule's discounting of the SOX auditor oversight framework and duplicative reporting requirements.[1] Most of our comments in that letter remain relevant to the final rule and incorporate views from those with roles elsewhere in the EY global network of firms.

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[1] EY US Comment letter to PCAOB on its proposed rule on firm reporting.

Increased costs with unclear benefits

We do not believe the PCAOB's final rule establishes the need for the various reporting requirements included in the rule. Many of the benefits cited by the PCAOB in the adopting release are speculative and/or acknowledged as being indirectly connected to audit quality. At the same time, the final rule will significantly increase costs to firms and, indirectly, to their audit clients. Much of the information that would be submitted confidentially under the rule is currently provided or available to the PCAOB through its inspection process.

While the PCAOB states that the rule clarifies and standardizes the information firms provide to the PCAOB, reporting the information in the indicated format will involve significant and costly changes to systems. There is no indication that the confidential firm information required to be reported under the rule is unavailable through the inspection process, nor that the purported benefit of standardization justifies the additional costs.

For example, new Rule 4013 requires firms that provide more than 200 audit reports to issuer clients and have more than 1,000 personnel to submit financial statements on Form 2. The rule mandates that the financial statements contain a series of items that may not reflect how firms manage their business. This means that the affected firms need to develop systems to collect and produce financial information solely for the purpose of reporting it to the PCAOB in a standardized format.

Because it would not necessarily reflect how a firm manages its business, the new information may not help the PCAOB staff "broadly understand the firm's business and allocation of resources."[2]

We continue to believe that requesting financial information through the inspection process, as well as by engaging in a dialogue with the firms about the information to be reported, would be more effective and less costly. For the firms subject to new Rule 4013 and those subject to new Item 8.1 of Form 3 (i.e., those that provide audit reports to more than 100 issuer clients), there is ample opportunity for the PCAOB staff to determine what additional information would be most relevant for PCAOB oversight and request it as needed as part of the established inspection process.

The PCAOB has neither indicated that it has been unable to obtain such information nor that there has been a situation in which the Board's oversight would have been improved if it had that information in a standardized format.

Rushed process leading to flawed rulemaking

The Board followed a swift process in this rulemaking, and the final rule does not reflect that it properly considered and adequately evaluated stakeholder input. In addition, the final rule changes certain requirements that were in the proposal and introduces new concepts that would have benefited from additional stakeholder input before being finalized.

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[2] See page 43 of the SEC release.

For example, new item 8.1 of Form 3 introduces a brand new definition of "material" for purposes of that item, which requires that the firm consider "whether a reasonably prudent audit partner would want to be informed of this information." It also states that "this is not to say that reporting is restricted to events that the firm has already announced to its partnership."[3] This definition is not operable because it is not tethered to any clear benchmark. It also is not clear how the introduction of this definition aligns with the PCAOB's oversight responsibilities. These issues could have been highlighted and addressed if the PCAOB had reproposed the rule or taken other steps to gather additional feedback.

Similarly, further engagement on the financial statement requirements for the largest firms could have helped the PCAOB determine which financial metrics would both meet the Board's needs and be relevant to the way firms manage their businesses. The PCAOB also has not articulated a compelling reason for moving ahead with a final rule without giving stakeholders an opportunity to provide additional input as many commenters requested during the proposed rule's comment period.

Incomplete economic analysis

The final rule reflects an inadequate cost-benefit analysis. Despite the numerous comment letters indicating significant concerns about the costs of implementing this rule, the PCAOB did not attempt to further quantify such costs. Rather, the adopting release simply notes the lack of additional quantitative cost information provided by commenters. The Board, however, has various options to further address these concerns and adjust requirements as needed, such as by hosting roundtables or issuing a reproposal.

Lack of consideration of the cumulative impact of standard setting activity on audit quality

The firm reporting rule is the latest in a year when the PCAOB considered new rules and standards in greater numbers than any year in the past two decades.[4] Many PCAOB-registered firms already are bearing a heavy workload from preparing to comply with other recently adopted PCAOB standards.[5] We do not believe the PCAOB has fully considered the potential negative impact on audit quality due to firm resources being diverted to implementing more reporting requirements in the same compressed timeframe.

Recommended next steps

We believe the PCAOB should engage with stakeholders to a much greater degree so this rule can benefit from sufficient due process. This should include having detailed discussions with audit committees, investors, audit firms and others to better understand how they consider audit quality, and whether, and what type of, additional information is needed to meaningfully improve their assessment of firms' audit quality. This would help evaluate the benefits to weigh against the likely considerable costs to implement the rule.

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3 See page 73 of the SEC release.

4 Speech, "PCAOB Chair Williams Urges Firms to 'Keep Up Momentum' as PCAOB Inspectors See Significant Improvements in Aggregate Deficiency Rate at the Largest Firms," 10 December 2024.

5 These include standards on quality control, the general responsibilities of the auditor and amendments related to aspects of designing and performing audit procedures that involve technology-assisted analysis of information.

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We appreciate the opportunity to comment on the PCAOB's final rule. We would be pleased to discuss our comments at your convenience and welcome engagement and dialogue with the Commission or its staff.

Sincerely,

Ernst & Young LLP