

Via Email

January 2, 2025

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

PCAOB-2024-06: Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Firm and Engagement Metrics and Related Amendments to PCAOB Standards

Dear Secretary Countryman:

The Council of Institutional Investors (CII) appreciates the opportunity to share its views and provide input on the Securities and Exchange Commission’s (SEC or Commission) “*Public Company Accounting Oversight Board [(PCAOB or Board)]; Notice of Filing of Proposed Rules on Firm and Engagement Metrics and Related Amendments to PCAOB Standards*” (Proposed Rules).¹ As PCAOB Chair Erica Y. Williams has correctly stated, “[s]ince at least 2008, investors [including CII²] have made clear that they do not have access to transparent, reliable, and comparable information relating to the audit.”³ CII, therefore, supports the Commission approving the Proposed Rules because we believe the final metrics represent an important, albeit long overdue, step forward in responding to investors’ information needs relating to the audit.

CII is a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately \$5 trillion. Our member funds include major long-term shareowners with a duty to protect the

¹ Public Company Accounting Oversight Board (PCAOB); Notice of Filing of Proposed Rules on Firm and Engagement Reporting, Exchange Act Release No. 101724, 89 Fed. Reg. 99968 (filed Dec. 10, 2024), <https://www.federalregister.gov/documents/2024/12/11/2024-28142/public-company-accounting-oversight-board-notice-of-filing-of-proposed-rules-on-firm-and-engagement>.

² See Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at III:2, VII:20 (Oct. 6, 2008) (on file with Council of Institutional Investors (CII)) (CII Executive Director Ann Yerger was a member of the Advisory Committee on the Auditing Profession (ACAP) and actively supported the ACAP recommendations, including the recommendation, that after over 15 years of discussion, has culminated in the final metrics that are currently before the Securities and Exchange Commission.); see generally, *Audit Quality with Bob Conway*, Voice Corp. Governance (Aug. 24, 2022), <https://podcasts.apple.com/us/podcast/audit-quality-with-bob-conway/id1433954314?i=1000577245923> (includes discussion of importance of ACAP recommendation and related PCAOB project to require public reporting of engagement level metrics).

³ PCAOB Chair Williams Statement on Firm and Engagement Metrics Adoption, PCAOB Open Board Meeting, Virtual (Nov. 21, 2024), <https://pcaobus.org/news-events/speeches/speech-detail/pcaob-chair-williams-statement-on-firm-and-engagement-metrics-adoption>.

retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true and real “Main Street” investors through their pension funds. Our associate members include non-U.S. asset owners with about \$4.8 trillion in assets, and a range of asset managers with more than \$55 trillion in assets under management.⁴

Attached to this letter is a CII May 2024 comment letter submitted to the PCAOB⁵ generally supporting “PCAOB Rulemaking Docket Matter No. 041, Firm and Engagement Metrics and PCAOB Rulemaking Docket Matter No. 055 Proposing Release: Firm Reporting” (Proposing Release).⁶ Our support for the Proposing Release and the resulting final standard⁷ as described in the Proposed Rules, is based, in part, on CII membership-approved policies that we believe are relevant to the information required by the final standard.⁸ Those requirements include the following eight metrics:

Partner and Manager Involvement. Hours worked by senior professionals relative to more junior staff across the firm’s large accelerated and accelerated filer engagements and on the specific engagement.

Workload. Average weekly hours worked on a quarterly basis by senior professionals who incurred hours on large accelerated and accelerated filer engagements, including time attributable to engagements, administrative duties, and all other matters, both firm-wide and on the core engagement team.

Training Hours for Audit Personnel. Average annual training hours for partners, managers, and staff of the firm, combined, both firm-wide and on the core engagement team.

Experience of Audit Personnel. Average number of years worked at a public accounting firm (whether or not PCAOB-registered) by senior professionals across the firm and on the engagement.

Industry Experience. Average years of career experience of senior professionals in key industries audited by the firm at the firm level and the audited company’s primary industry at the engagement level.

⁴ For more information about CII including its board and members, please visit CII’s website at <http://www.cii.org>.

⁵ See Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, PCAOB 14 (May 30, 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-055/6_cii.pdf?sfvrsn=bf5fbf7c_2 (“CII generally supports the . . . Proposal which . . . implements a long overdue 2008 recommendation of the ACAP Report to provide investors with decision-useful metrics about audit firms and individual audits [and] [w]e believe the . . . metrics would provide significant benefits to investors by providing information they currently don’t have access to.”).

⁶ See Firm and Engagement Metrics, PCAOB Release No. 2024-002 (Apr. 9, 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket_041/2024-002-firm-and-engagement-metrics.pdf.

⁷ See Firm and Engagement Metrics, PCAOB Release No. 2024-013 (Nov. 21, 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket_041/2024-012-firm-and-engagement-metrics.pdf?sfvrsn=56352677_2.

⁸ See Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, PCAOB at 2-4 (Those policies include: “Independence of Accounting and Auditing Standard Setters;” “Audit Committee Responsibilities Regarding Independent Auditors;” “Shareowner Votes on the Board’s Choice of Outside Auditor;” and “Financial Gatekeepers.”).

Retention of Audit Personnel (firm level only). Continuity of senior professionals (through departures, reassignments, etc.) across the firm.

Allocation of Audit Hours. Percentage of hours incurred prior to and allowing an issuer's year end across the firm's large accelerated and accelerated filer engagements and on the specific engagement.

Restatement History (firm-level only). Restatements of financial statements and management reports on internal control over financial reporting ("ICFR") that were audited by the firm over the past three years.⁹

The following is a brief description of those CII membership-approved-policies that we believe are relevant to the requirements, followed by a summary analysis of why we believe the application of those policies supports the Commission's approval of the Proposed Rules:

Audit Committee Responsibilities Regarding Independent Auditor¹⁰

This CII membership-approved policy states, in part, that:

The audit committee should fully exercise its authority to hire, compensate, oversee and, if necessary, terminate the company's independent auditor. In doing so, the committee should take proactive steps to promote auditor independence and audit quality. . . . [And the audit committee should evaluate a number of factors when overseeing the independent auditor, including:]

. . . .

- the *experience, expertise* and professional skepticism of the audit partner, manager and senior personnel assigned to the audit, and *the extent of their involvement in performing the audit*
- the *incidence* and circumstances surrounding *a financial restatement*, whether at the company or at another company audited by the same firm
- the *incidence* and circumstances surrounding the *reporting of a material weakness in internal controls* by the auditor

. . . .

- the level of *transparency and robustness* of the *audit firm with the audit committee and investors*, including with respect to *audit quality indicators*, governance practices and underlying principles, and the financial stability of the audit firm

. . . .

- the track record of the lead partners *and the extent of their professional commitments*, as provided upon request or observable through disclosure or signature of the lead partner on the auditor's report¹¹

⁹ 89 Fed. Reg. at 99969.

¹⁰ CII, Policies on Corporate Governance, § 2.13a Audit Committee Responsibilities Regarding Independent Auditors (last updated on Sept. 11, 2023), https://www.cii.org/corp_gov_policies.

¹¹ *Id.* (emphasis added).

This policy includes factors that are closely aligned with at least four of the final metrics in Proposed Rules:

(1) Partner and Manager Involvement

Consistent with the language in our policy, we agree with the Board that the required *Partner and Manager Involvement* metrics “will provide useful information to assist in understanding hours worked by senior professionals relative to more junior staff and gauging the associated risks.”¹² And “[i]nvestors and audit committees could use this information to evaluate whether partners and managers are giving their engagement appropriate attention.”¹³

(2) Workload

Our policy language focuses more narrowly on the workload of “lead partners” rather than the Proposed Rules “senior professionals.”¹⁴ And we agree with the Board that “heavy workloads could prevent an engagement partner from providing adequate and focused attention to an audit engagement [and] [t]he information provided by the metrics . . . may help audit committee members and other stakeholders understand the various activities competing for an engagement partner’s time.”¹⁵

(3) Experience of Audit Personnel

Consistent with the language in our policy, we agree with the Board that “[g]reater experience of audit personnel metrics may indicate to investors and audit committee members that senior professionals are more effective and efficient auditors.”¹⁶

(4) Restatement History

Consistent with the language in our policy, we support the *Restatement History* metric. We agree with the Board’s explanation that:

Restatements . . . are generally considered a signal of potential difficulties in at least parts of a firm’s audit practice. Academic literature suggests that restatements provide the cleanest empirical measure of audit failure. Overall, the . . . academic literature supports a measure that accumulates the pattern of restatements for firms, as this would provide a strong measure against which other metrics may be identified in the future.”¹⁷

We agree with PCAOB Chair Williams that collectively, the information disclosed by all eight of the final metrics “will provide a basis for audit committees to make more informed decisions in

¹² 89 Fed. Reg. at 99996.

¹³ *Id.* at 100046.

¹⁴ *Id.* at 99969.

¹⁵ *Id.*

¹⁶ *Id.* at 100046.

¹⁷ *Id.* at 100008.

retaining and monitoring audits, and will provide a basis for investors to make more informed decisions when . . . electing board members, and allocating capital.”¹⁸

Shareowner Votes on the Board's Choice of Outside Auditor¹⁹

This CII membership-approved policy states:

Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor. In practice, if the board's selection fails to achieve the support of a significant majority, such as 80%, of the for-and-against votes cast, the audit committee should: (1) solicit the views of major shareowners to determine why a meaningful minority of shareowners dissented from ratification and (2) take the shareowners' views into consideration and reconsider its choice of auditor.²⁰

The Board accurately describes this policy “as an important element of corporate governance.”²¹ Unfortunately, the effectiveness of this policy as a tool for investors to demonstrate whether they support the audit committee’s appointment of the firm is currently significantly limited because of the lack of information available to investors.²² As the Board explains:

- Investors . . . cannot easily observe the services performed by auditors. *This restricts . . . investors’ ability to more efficiently and effectively ratify the appointment of the auditor and allocate capital.* As a result, there is a risk that auditors will not supply an efficient level of assurance to the market.
- Furthermore, there are currently insufficient incentives for firms to fully meet the market demand for accurate, standardized, and decision-relevant information. There is also a challenge coordinating firms on a system of comparable disclosures. As a result of the lack of incentives and coordination challenges, . . . *auditors are not supplying the market with additional information even when doing so would be efficient. Indeed, information about audit engagements and firms that would allow*

¹⁸ PCAOB Chair Williams Statement on Firm and Engagement Metrics Adoption, PCAOB Open Board Meeting, Virtual.

¹⁹ § 2.13f Shareowner Votes on the Board's Choice of Outside Auditor.

²⁰ *Id.*

²¹ 89 Fed. Reg. at 100028 n.225.

²² See PCAOB Chair Williams Statement on Firm and Engagement Metrics Adoption, PCAOB Open Board Meeting, Virtual (“Today, investors and other stakeholders lack information about audit firms’ practices and their engagements – some of which may be shared with company management or their audit committees.”); Kara M. Stein, Board Member, Driving Improvement in Understanding Elements of Audit Performance, PCAOB Open Board Meeting, Virtual (Nov. 21, 2024), <https://pcaobus.org/news-events/speeches/speech-detail/driving-improvement-in-understanding-elements-of-audit-performance> (“Both investors and audit committees have vitally important roles to perform in the audit governance process [b]ut they often lack the information necessary to perform those roles effectively.”); Anthony C. Thompson, Board Member, Statement in Support of Firm and Engagement Metrics, PCAOB Open Board Meeting, Virtual (Nov. 21, 2024), <https://pcaobus.org/news-events/speeches/speech-detail/statement-in-support-of-firm-and-engagement-metrics-thompson> (“Currently, [investors] . . . receive little to no information regarding key aspects of the audit [and] [o]utside of CAMs, which are 1 or 2 on average per engagement, the audit process is rather opaque for investors.”).

*investors to more efficiently and effectively ratify the appointment of the auditor and allocate capital, as sought by the market, is often limited or difficult to obtain.*²³

Moreover, we agree with the Board’s conclusion that the final metrics will improve the effectiveness of our policy for at least two reasons:

- *First*, the final rules will require certain firms to publicly report specified metrics relating to certain audits and their audit practices. Through this disclosure, the final metrics will aid investor[s]’ . . . decision-making.
 - *Second*, the final rules will impose standardized calculations and require regular public reporting of those metrics. The resulting comparability will further aid investor[s]’ . . . decision-making.
- [And] . . . investors’ . . . ability to use the metrics is likely to increase over time as users are able to aggregate multiple data points, make comparisons and observe trends.²⁴

Financial Gatekeepers²⁵

This CII membership-approved policy explicitly describes auditors as “financial ‘gatekeepers.’”²⁶ The policy indicates that it is imperative that auditors be subject to “[r]obust oversight and [have] genuine accountability.”²⁷ The policy also states that the “Sarbanes-Oxley Act of 2002 [SOX] . . . bolstered the . . . oversight and accountability of accounting firms . . . [and that] [c]ontinued reforms are needed to ensure that the pillars of transparency, independence, oversight and accountability are solidly in place.”²⁸

Consistent with this policy, we believe the final metrics required by the Proposed Rules would result in greater transparency, oversight, and accountability for the audit firms and are within the statutory authority of the Board under SOX. As the Board explains:

[T]he disclosures mandated by the metrics will enhance *transparency* and bolster the PCAOB’s *oversight* capabilities. Such enhancements are designed to ultimately improve *audit quality*. For example, as discussed more completely below, the final metrics will enhance (i) *audit committees’ ability to efficiently and effectively monitor and select auditors as well as* (ii) *investors’ ability to efficiently and effectively make decisions about ratifying the appointment of their auditors and allocating capital*. In addition, as an important indirect benefit, the final rules could further spur competition to the benefit of investors. *Thus, the final rules align with*

²³ 89 Fed. Reg. at 100027 (footnotes omitted and emphasis added).

²⁴ *Id.* (emphasis added).

²⁵ CII, Policies on Other Issues, Financial Gatekeepers (adopted Apr. 13, 2010), https://www.cii.org/policies_other_issues#fin_gatekeepers.

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.* (emphasis added).

the overarching objectives of Sarbanes-Oxley, and therefore are appropriate exercises of the Board's authority under Section 102."²⁹

Independence of Accounting and Auditing Standard Setters³⁰

This CII membership-approved policy states, in part, that:

In order to be high quality, . . . auditing standards must be seen as meeting the needs of the investing public, . . . Attributes that underpin an effective . . . auditing standard setter include:

. . . .

- **Accountability to Investors** – A clear recognition that investors are the key customer[s] of audited financial reports and, therefore, the primary role . . . should be to satisfy in a timely manner *investors' information needs* . . .³¹

Consistent with this policy, the *Wall Street Journal* recently reported that:

Investors have wanted . . . [these] proposed changes for years in a bid for greater transparency from audit firms. The U.S. Treasury Department's advisory committee on the auditing profession issued a report back in 2008 calling for many of these moves by the PCAOB.³²

In addition, we believe the May 2024 comment letter from the Members of the Investor Advisory Group (MIAG) of the PCAOB provides current evidence that the final metrics described in the Proposed Rules are responsive to investors' information needs.³³ The MIAG letter explains:

The MIAG strongly supports the . . . Proposal which . . . implements a long overdue 2008 recommendation of the ACAP Report to provide investors with decision-

²⁹ 89 Fed. Reg. at 99982 (emphasis added); *see generally*, Sarbanes-Oxley Act, Pub. L. No. 107-204, § 102(b)(2)(H), 116 Stat. 754, 753-54 (2002), *available at* https://www.dol.gov/agencies/oalj/PUBLIC/WHISTLEBLOWER/REFERENCES/STATUTES/SARBANES_OXLEY_ACT_OF_2002#:~:text=%5B%5BPage%20116%20STAT.,laws%2C%20and%20for%20other%20purposes (“(b) Applications for Registration.-- . . . (2) Contents of applications.--Each public accounting firm shall submit, as part of its application for registration, in such detail as the Board shall specify . . . (H) 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.”).

³⁰ CII Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (Mar. 1, 2017), [https://www.cii.org/policies_other_\[s\]issues#indep_acct_audit_standards](https://www.cii.org/policies_other_[s]issues#indep_acct_audit_standards).

³¹ *Id.* (emphasis added).

³² Mark Maurer, *Large Accounting Firms Will Have to Submit Financial Statements to U.S. Regulator*, Wall. St. J., Nov. 21, 2024 (emphasis added), *available at* <https://www.wsj.com/articles/large-accounting-firms-will-have-to-submit-financial-statements-to-u-s-regulator-2ed22953>; *see, e.g.*, PCAOB Chair Williams Statement on Firm and Engagement Metrics Adoption, PCAOB Open Board Meeting, Virtual (“Since at least 2008, investors have made clear that they do not have access to transparent, reliable, and comparable information relating to the audit.”).

³³ Letter from Members of the Investor Advisory Group to Office of the Secretary, PCAOB 1 (May 29, 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket_041/4_iag.pdf?sfvrsn=2680ecfd_2.

useful metrics about audit firms and individual audits. We believe the . . . metrics would provide significant benefits to investors by providing information they currently don't have access to that can assist them in making more informed decisions about whether to vote to approve the ratification of the auditor or the election or reelection of the audit committee chair or members, or in exercising their responsibilities for oversight of the audit committees of public companies.³⁴

And we agree with the Board's conclusion that the:

*The final rules will increase the set of information available to audit committees and investors regarding their auditor. This should improve both investors' and audit committees' ability to monitor their auditors. For example, an audit committee could engage in more meaningful discussions with [its] . . . auditor regarding the auditor's performance. In response to improved monitoring, auditors may improve audit efficiency as well as audit outcomes as they become more responsive to investors' and audit committees' audit service needs. The final rules could also reduce costs related to information gathering that are incurred by investors and audit committees when monitoring their auditor. Some of the cost reductions could reflect reductions in duplicative work to the extent that various investors or audit committees collect the same information.*³⁵

Finally, we acknowledge that the Proposed Rules do not adopt all the recommendations contained in CII's May 2024 comment letter in response to the Proposing Release.³⁶ Nevertheless, we believe the Proposed Rules, if approved by the SEC, would protect the interests of investors, consistent with the mandate set forth in Title I of SOX³⁷ and our membership-approved policies.

We appreciate the opportunity to provide CII's investor-focused perspective on the Proposed Rules. Please let me know if you have any questions about the content of this letter.

Sincerely,



Jeffrey P. Mahoney
General Counsel

³⁴ *Id.* at 10.

³⁵ 89 Fed. Reg. at 100039 (emphasis added and footnotes omitted).

³⁶ CII recommendations in response to the "PCAOB Rulemaking Docket Matter No. 041, Firm and Engagement Metrics" that were ultimately *not* adopted by the PCAOB include: (1) Requiring a metric not proposed: Percentage of PCAOB Part 1.A infractions of the total tested; and (2) Requiring metrics to be disclosed in both the Form AP and Form FM *and* in the auditor's report. See Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, PCAOB at 14.

³⁷ See Sarbanes-Oxley Act, Pub. L. No. 107-204, §§ 101-109, 116 Stat. 754, 750-771.

Attachment

Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, PCAOB (May 30, 2024).