PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

April 29, 2025

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Ranking Member Waters:

Minority staff of the Financial Services Committee (the "Committee") have sought technical assistance from the staff of the Public Company Accounting Oversight Board (PCAOB or the "Board") as it relates to the Committee's consideration of Section 50002 of Title V of the draft bill before the Committee titled, *Public Company Accounting Oversight Board* (the "Proposed Bill"). The Committee's Minority staff requested that we provide an assessment in writing. I want to thank you and your staff for the opportunity.

In the more than 20 years since accounting scandals from Enron to WorldCom prompted Congress's creation of the PCAOB, the Board has faithfully and successfully executed its mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

Today, the PCAOB's mission is as important as ever. History tells us that when the economy is tight, the risk of fraud goes up. And the stakes are high.

At its peak in August 2000, Enron had a market capitalization of about $70 billion, ranking it as the seventh largest publicly-traded company in the United States, and had over 20,000 employees. Since then, the value of the stock market, including the values of the largest and most widely-held companies in America, has increased substantially. As of March 31, 2025, the 10 largest companies alone had a combined market cap of $17.4 trillion and employed millions of people, which is a scale that would have made Enron seem small prior to its collapse.

With millions of Americans invested in the stock market, including through 401(k)s and pensions, auditors need to perform their audits with more care than ever. Now is not the time for a major disruption in audit oversight.

1666 K Street NW, Washington, DC 20006 | Office: 202-207-9100 | Fax: 202-862-8430 | www.pcaobus.org

As detailed below, it is simply not possible to replicate the PCAOB's successful programs without significant time and cost, resulting at a minimum in a lapse in inspections that could allow poor quality audits to go undetected and provide opportunities for auditors or issuers to commit fraud.

Developing a program to conduct the inspections mandated under the Sarbanes-Oxley Act ("SOX") has taken many years and today requires almost 500 staff with unparalleled qualifications. Conducting those inspections in more than 50 jurisdictions around the world often requires legal agreements that take years to secure. None of the agreements contain provisions that would allow the PCAOB's privileges and responsibilities under the agreements to be transferred to the U.S. Securities and Exchange Commission (SEC).

Of course, this includes China, where, for the first time in history, the PCAOB has been successfully inspecting and investigating completely, holding Chinese firms accountable and bringing historic enforcement cases.

The PCAOB secured every concession we demanded from China in the Statement of Protocol that facilitates our access to inspect and investigate completely. We are holding their feet to the fire. Scrapping that hard-won agreement and starting over gives China the opportunity to exploit the ensuing uncertainty in order for their firms to avoid scrutiny of their audit work once again, to the detriment of investors.

Further, the Proposed Bill's approach has several possible consequential unintended legal implications, including the examples provided below.

The SEC was my professional home for 11 years. I have deep admiration and respect for the incredible professional staff there. They are excellent at what they do.

It is different from what we do here at the PCAOB.

The unique experience and expertise built up by the PCAOB over decades cannot simply be cut and pasted into the SEC without significant risk to investors at a time when markets are already volatile.

Please find below further detail prepared at the request of the Committee's Minority staff.

Thank you,

Erica Y. Williams

Erica Y. Williams
Chair

1666 K Street NW, Washington, DC 20006 | Office: 202-207-9100 | Fax: 202-862-8430 | www.pcaobus.org

APPENDIX: PRELIMINARY TECHNICAL ASSISTANCE

PCAOB programs would be impossible to replicate in the legislation's one year timeframe without significant disruption to audit oversight

The PCAOB has spent the last 22 years developing inspection, enforcement, and standard-setting programs that are based on audit-specific experience and expertise. That experience and expertise cannot simply be transferred to the SEC, meaning that there would be significant disruptions in our programs, putting our investor-protection mandate at serious risk.

The PCAOB operates three main programs.

- First, we inspect over 200 audit firms each year on a statutorily mandated schedule. We inspect selected audits and the quality control systems at these firms and publish our results in inspection reports. We also provide a remediation process that allows firms to correct quality control criticisms that we find during these inspections.
- Second, we conduct investigations and bring enforcement matters where we find serious violations of audit-related rules and standards.
- Finally, we set rules and standards for audits of publicly-traded companies and broker-dealers.

Re-creating these programs at the SEC would be extremely difficult for two primary reasons:

First, the PCAOB has spent the last 22 years building our programs. While our policies and processes are certainly critical to our programs, it is our people who execute our investor-protection mission. We have spent more than two decades hiring experts in the field of auditing and further developing their expertise to perform inspections, investigations, and enforcement, and standard setting. It would be very difficult to re-create the talented expert staff that the PCAOB has assembled. Because each of our programs requires expertise to execute, including making complex judgments in technical areas, having the right staff is critical to our success as an audit regulator.

Second, we have spent twenty years negotiating agreements with the governments of foreign countries in which we need to perform inspections and investigations. Many of the countries in which we perform our work require by law that these agreements be in place. They are often difficult to negotiate, require the consent of multiple government bodies, and have taken years to put in place. The SEC is not a party to these agreements, and the agreements do not provide for assigning the duties and privileges of these agreements to another party, like the

1666 K Street NW, Washington, DC 20006 | Office: 202-207-9100 | Fax: 202-862-8430 | www.pcaobus.org

SEC. As a result, the SEC will not be able to inspect or investigate in many of these countries, including China, until new agreements are reached.

As discussed in greater detail below, we estimate that it will take years to reassemble staff with the experience and expertise necessary to perform these inspections and to negotiate agreements with foreign governments required to perform our work. While those processes are ongoing, audit firms will know that their regulator is compromised and unable to adequately inspect and investigate their work. That puts investors in a dangerous position.

Experience of PCAOB staff

The PCAOB performs a large number of inspections each year. We have approximately 480 inspectors who conduct inspections, including selecting engagements for inspection, drafting inspection reports, and conducting our quality control remediation process, and many others are essential to supporting their work. In 2024, our inspectors spent over 750,000 hours inspecting 231 audit firms, including reviewing portions of over 900 individual audits, and conducting our quality control remediation process. These inspections were performed in 36 countries and include more than 20,000 hours that the PCAOB spent inspecting firms in mainland China and Hong Kong. In order to maintain that level of inspections work, the SEC would need to assemble a comparably-sized team of highly experienced staff willing and able to travel around the world to perform this work. We additionally have over 70 staff across our Office of the Chief Auditor and Office of Economic and Risk Analysis who all have unique experience to consult with and assist inspectors. These are aside from staff who have gained specialized experience operationalizing our programs. our programs.

The experience and expertise of the team are just as important as its size. Our inspections staff average 22 years of auditing and inspections experience. On average, half of that experience (11 years) was obtained working at public accounting firms and half was obtained working at the PCAOB. Our inspection leaders average over 31 years of experience, of which nearly half (14 years) occurred in public accounting prior to joining the PCAOB.

Our inspections staff have professional expertise in over 30 different industry sectors, including banking, technology, manufacturing, retail, oil and gas, and broker-dealers. Many of these sectors require specialized accounting, making this expertise invaluable. Our inspections staff also have expertise across 40 different subject matters that involve complex accounting and auditing, including revenue recognition, allowance for credit losses, derivatives, business combinations, and technology. Additionally, our inspection staff have expertise in over 30 different languages, which is important to support our work across the globe.

The same is true across our enforcement and standard-setting groups. Our staff are experts in auditing and are therefore able to bring complex auditing-related investigations and

1666 K Street NW, Washington, DC 20006 | Office: 202-207-9100 | Fax: 202-862-8430 | www.pcaobus.org

enforcement matters and draft standards that address the audit issues that put investors at risk. On average, our enforcement staff have over eight years of professional experience at the PCAOB, and most have a minimum of seven years of experience addressing complex legal and accounting/auditing issues before coming to the PCAOB. Our standard-setting staff have an average of nearly 10 years of standard-setting and rulemaking experience at the PCAOB, in addition to a minimum of 10 years of experience working in public accounting before joining the PCAOB.

Because of the experience and expertise required to successfully execute our programs, it has taken many years to build them to their current levels. Our inspection program began in 2003, and it took approximately six years for the inspection program to develop to the point where all statutorily required inspections of U.S. firms were performed at a basic level. More advanced types of inspections and inspections of certain critical foreign firms came later.

Inspectors' familiarity with the firms and their methodologies has continuously increased and contributes to the effectiveness and efficiency of inspections.

Still, even if the SEC assumed the significant cost of offering positions to all 480 plus PCAOB staff needed to conduct inspections, it is not guaranteed staff would be available to fill those roles. There is currently an industry-wide shortage of accounting and audit talent, and our team members are some of the most respected and employable members of the profession. In the last few years, firms have hired many of our staff members, often at significant salary increases. Our team members would be highly valued both in companies' accounting departments and at audit firms.

The SEC would be unable to inspect and investigate in the most critical foreign jurisdictions for a significant period of time, if at all

As a threshold matter, without greatly expanding on it in this letter, there is a risk that the Proposed Bill would be deemed to have no extraterritorial application – meaning the Proposed Bill might eliminate inspections and investigations abroad. In such case, the Proposed Bill will all but nullify the Holding Foreign Companies Accountable Act, signed into law by President Donald J. Trump, which gave the PCAOB historic access to Chinese audit firms.

Potential legal deficiencies aside, the PCAOB regulates audit firms that audit publicly-traded companies listed on U.S. stock exchanges (among other issuers), regardless of where those companies or their auditors are located. This means that there are many foreign audit firms

1666 K Street NW, Washington, DC 20006 | Office: 202-207-9100 | Fax: 202-862-8430 | www.pcaobus.org

that fall within the PCAOB's jurisdiction. In fact, of the 1,519 audit firms registered with the PCAOB as of April 15, 2025, 844 of them were non-U.S. firms.

The fact that a majority of registered firms are non-U.S. firms creates unique challenges. Many jurisdictions – including China, Hong Kong, and every member state of the European Economic Area – require that we enter into agreements with their governments in order to inspect and investigate audit firms in their countries. These agreements include statements of protocol with provisions on how inspections will be conducted, how foreign governments will facilitate (but not interfere with) our inspections, and how confidential information will be shared between the PCAOB and the foreign audit regulator, and they were negotiated over a period of twenty years. More than a dozen of the agreements are accompanied by separate, detailed data protection agreements that govern our procedures for handling protected information, such as personally-identifiable information, obtained in foreign jurisdictions.

The PCAOB currently has 27 working arrangements (not including accompanying data protection agreements) with foreign authorities, including a statement of protocol signed in 2022 that allows us to inspect and investigate completely in mainland China and Hong Kong for the first time. These agreements facilitate cooperation in each of these jurisdictions, but they are currently required in 20 jurisdictions for us to perform our work, including mainland China, Hong Kong, countries in the European Union and European Economic Area (EU/EEA), Switzerland, and the United Kingdom (with more EU/EEA countries requiring inspections – and therefore agreements – in the next few years). These are some of the jurisdictions with the most registered firms and some of the largest public companies. Together, firms in these 20 jurisdictions audit public companies representing $6.3 trillion in global market capitalization – roughly half of the $12.3 trillion market capitalization of public companies audited by all non-U.S. firms inspected by the PCAOB.

None of the agreements contains provisions that would allow the PCAOB's privileges and responsibilities under the agreements to be transferred to the SEC. In fact, all of the agreements are voluntary, and either party can exit the agreement at any time. This means that the foreign jurisdictions can simply end the agreements, are not in any way required to form new agreements with the SEC, and may indeed be required by their own laws to renegotiate such agreements.

These agreements give the PCAOB access that the SEC does not otherwise have. Importantly, the PCAOB's newly-obtained ability to inspect and investigate Chinese firms, made possible by the Holding Foreign Companies Accountable Act, would not transfer to the SEC and would be lost unless a new agreement can be formed and successfully implemented. PCAOB inspections and enforcement matters have revealed poor audit quality at several Chinese firms and have allowed us to take steps to protect investors who invest in Chinese companies traded on

1666 K Street NW, Washington, DC 20006 | Office: 202-207-9100 | Fax: 202-862-8430 | www.pcaobus.org

U.S. exchanges. That ability to protect investors in Chinese companies would, at a minimum, be significantly disrupted.

Even if the SEC were able to negotiate new agreements, it would take a significant amount of time. Many of these agreements have taken years to negotiate (and, collectively, well over a decade), and they often require the approvals of several government entities within a given jurisdiction. A transfer of PCAOB inspections functions to the SEC can be expected to delay, at least, the 2025 and 2026 inspections of non-U.S. firms as authorities in those jurisdictions assess whether they can facilitate SEC access to audit work papers in compliance with local laws under existing arrangements or whether new agreements and/or regulatory approvals are required.

For example, the law in the European Union requires an "Adequacy Decision" for foreign regulators, like the PCAOB or SEC, before any audit firm may transfer audit work papers to that audit regulator for inspections or investigations. Although the current EU Adequacy Decision recognizes the SEC as a "competent authority" to investigate audit firms in the EU, the PCAOB is the only U.S. authority to whom firms in the EU can transfer audit work papers and associated material for inspections.

The SEC would therefore need European authorities to revise the current Adequacy Decision to include the SEC as a party to whom audit work papers may be transferred for the purpose of inspections, and that statutory legal process alone requires nine months to a year. The European Commission (EC) initiates and manages this process, but it requires fact finding and legal analysis by, consultation with, and an affirmative vote of, all European Economic Area (EEA) audit regulators (via the Committee of European Audit Oversight Bodies or CEAOB). The PCAOB was able to obtain an Adequacy Decision only after an extensive education campaign about its inspection and enforcement processes and legal protections under U.S. law for information provided to the PCAOB by EU auditors, as well as reaching a nuanced understanding with regard to the reliance among audit regulators that is required by EU law.

Additionally, EU law and the Adequacy Decision require that each EEA audit regulator have in place bilateral agreements with third-country audit regulators, such as the PCAOB or SEC, that satisfy EU law, before firms can provide audit work papers to the third-country authorities. These arrangements address legal requirements on both sides, including the scope of cooperation, the confidentiality of information provided, the scope of the use of such information, potential onward transfer of information to other authorities, and the protection and use of personal data. Finally, because the U.S. is not deemed adequate by the EU with respect to the protection of personal data, an administrative arrangement (bilateral agreement) addressing

1666 K Street NW, Washington, DC 20006 | Office: 202-207-9100 | Fax: 202-862-8430 | www.pcaobus.org

the requirements of the EU General Data Protection Regulation (GDPR) for the transfer of personal data to an audit regulator in the U.S. is also required. Such agreements must be approved by a European Data Protection Board (EDPB) opinion finding that the agreements are compliant with GDPR (as required by EU law, including the Adequacy Decision). The PCAOB's negotiation and EDPB approval of a model data protection agreement took well over two years, and the PCAOB continues to negotiate additional agreements based on this model, which takes months, if not longer, given the country-specific approval processes required in each EU member state.

These are just examples for European Union countries. Other countries present different challenges, and legal conflicts must be resolved frequently.

The PCAOB is uniquely positioned to secure and maintain these critical bilateral agreements. In particular, the PCAOB staff believe that the PCAOB's status as a non-governmental entity and the restrictions in SOX related to the PCAOB's use and onward transfer of information received in connection with PCAOB inspections and investigations were extremely helpful in achieving access to jurisdictions around the world. While challenges reaching new agreements with other countries are likely not insurmountable, they will take time and skill to surmount.

We do not anticipate the proposal having the desired cost savings for the federal government

It is not at all clear that transferring the PCAOB's responsibilities to the SEC would result in any cost savings for the federal government. First, it should be noted that because the PCAOB is a private entity, the majority of whose funding comes from fees paid by the largest publicly-traded companies, rather than through taxes, transferring the PCAOB's responsibilities to the SEC would require an expansion of the federal budget.

As described above, in order to execute the PCAOB's responsibilities, the SEC would need to hire hundreds of highly-skilled staff members. Although publicly-available information on SEC salary ranges also indicates that the average salaries of our inspectors are comparable to salaries of professionals at the SEC, over the last three years our staff seldom moved from the PCAOB to the SEC. The SEC also would need to set up and maintain systems that would allow them to perform inspections, including IT systems to document inspections work and retain firm work papers that serve as evidence of the inspection findings. Such systems are expected to cost tens of millions of dollars to develop and maintain.

1666 K Street NW, Washington, DC 20006 | Office: 202-207-9100 | Fax: 202-862-8430 | www.pcaobus.org

Consequently, there likely would be minimal to no savings in compensation and IT costs related to our inspections program should it transfer to the SEC. While we have not been contacted by the Congressional Budget Office seeking our technical assistance, we stand ready to offer our perspective on the budgetary implications of the Proposed Bill.

The potential legal ramifications of the Proposed Bill's cut-and-paste approach

As an initial matter, the "cut and paste" approach the Proposed Bill takes to simply replace all references to the PCAOB under current law with the SEC may result in significant unintended consequences. For instance, the Proposed Bill requires that any reference to the Board in any law, regulation, document, record, map, or other paper of the United States be treated as a reference to the "Commission." In so doing, where Section 101(b) of SOX previously referenced the PCAOB, it would now read, "the Commission shall not be an agency or establishment of the United States Government . . . . No member or person employed by, or agent for, the Commission shall be deemed to be an officer or employee of or agent for the Federal Government by reason of such service."

This is just one example; there are more. The Proposed Bill leaves the PCAOB in a state of existential purgatory; transfers intellectual property retained by the PCAOB, including that which was developed by or in conjunction with third parties, to the SEC without consideration of the constitutional or contractual implications of doing so; makes consequential changes to the current multi-level review framework for registration disapproval decisions, inspection findings, and remediation determinations; and elevates the PCAOB's existing processes to the functional equivalent of SEC rules. These are some of the many complex issues that our staff have identified since we first learned of the language of the Proposed Bill near midnight last Friday.

The legal complexities and the potential market implications of disrupting domestic and foreign inspections (among other consequences) require careful deliberation. PCAOB staff have had mere days to consider these significant changes. By comparison, prior to enacting SOX, the Senate Banking Committee held ten hearings and engaged in a four-months-long bipartisan deliberation. The House Financial Services Committee held three hearings and deliberated for five weeks. The legal, practical, and market impacts of significant changes to the PCAOB are of such magnitude that significant difficulties may arise if those changes are made without sufficient time and deliberation, potentially resulting in harm to investors. The PCAOB staff will continue to assess the impacts of the Proposed Bill and stand ready to provide technical assistance.

The Proposed Bill would lead to significant gaps in investor protection

In summary, this proposal would lead to significant gaps in investor protection. The SEC already has a wide mandate. Adding to it would take significant time and resources. Adding a

1666 K Street NW, Washington, DC 20006 | Office: 202-207-9100 | Fax: 202-862-8430 | www.pcaobus.org

global audit oversight function would stretch the SEC's resources thin, disrupt ongoing inspections of audit firms, and nullify carefully negotiated agreements.

By contrast, the PCAOB has focused exclusively on audit quality and resulting investor protection for over 20 years and has built a successful program that is a model for audit regulators around the world. Much of the PCAOB's expertise and experience would be sacrificed by transferring its functions to the SEC, and we expect that there would be significant disruptions in audit oversight over the coming years while the SEC tries to build that experience and expertise in-house and attempts to secure agreements with foreign governments.

When similar audit oversight was absent in the early 2000s, accounting restatements and fraud wiped out hundreds of billions of dollars in shareholder value. History shows us what happens when auditor scrutiny faces impediments. These disruptions invite that risk back into today's far larger and far more interconnected markets.

1666 K Street NW, Washington, DC 20006 | Office: 202-207-9100 | Fax: 202-862-8430 | www.pcaobus.org