

CHIEF EXECUTIVE OFFICER

Julie Bell Lindsay

GOVERNING BOARD

Governing Board Chairman

Kelly Grier

US Chairman and Managing
Partner, Americas Managing
Partner
EY

Governing Board Vice Chairman

Wayne Berson

US CEO and Global Chairman
BDO USA LLP

Joe Adams

Managing Partner and CEO
RSM US LLP

Brian P. Anderson

Corporate Director

Mark Baer

CEO
Crowe LLP

Jeffrey R. Brown

Professor of Business and Dean
University of Illinois at
Urbana-Champaign
Gies College of Business

Paul Knopp

Chair and Chief Executive Officer
KPMG LLP

Barry C. Melancon

CEO, Association of International
Certified Professional Accountants
President and CEO, American
Institute of CPAs

Bradley J. Preber

CEO
Grant Thornton LLP

Timothy F. Ryan

US Chairman and Senior Partner
PricewaterhouseCoopers LLP

Mary Schapiro

Vice Chair for Global Public Policy
and Special Advisor to the
Founder and Chairman
Bloomberg LP

Joseph B. Uczoglu

Chief Executive Officer
Deloitte US

July 12, 2021

PCAOB Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 048

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of important issues requiring action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs. This letter represents the observations of the CAQ based upon feedback and discussions with certain of our member firms, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ appreciates the opportunity to share our views in response to the Public Company Accounting Oversight Board's (PCAOB or Board) [Proposed Rule 6100, Board Determinations Under the Holding Foreign Companies Accountable Act](#) (Proposed Rule or Proposal).

The CAQ believes that high quality, reliable financial statements are the bedrock of our disclosure-based regulatory ecosystem, and audit quality is an important driver of high-quality financial disclosure. PCAOB inspections are a key component of the U.S. regulatory efforts to enhance the quality of financial reporting and ensure audit quality. The CAQ understands that the Holding Foreign Companies Accountable Act (HFCAA) has created a mandate for the PCAOB to determine when it is unable to "inspect or investigate completely" a registered public accounting firm located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction.¹

¹ See HFCAA § 2(i)(2)(A), 15 U.S.C. § 7214(i)(2)(A) (requiring that the Commission identify certain issuers that "retain[] a registered public accounting firm that has a branch or office that . . . is located in a foreign jurisdiction . . . and . . . the Board is unable to inspect or investigate completely because of a position taken by an authority in [that] foreign jurisdiction . . . as determined by the Board.)"



CENTER FOR AUDIT QUALITY
1155 F Street NW, Suite 450
Washington, DC 20004

(202) 609-8120
www.thecaq.org



We welcome the PCAOB's transparency in establishing the framework to make those determinations and to seek input on the process. We agree that adopting a rule governing how the PCAOB makes such determinations will be informative to investors, registered firms, issuers, audit committees, foreign authorities, and the public at large.

We support the approach of limiting jurisdiction-wide determinations to firms "headquartered" in the jurisdiction as well as the recognition that member firms within a network should not be subject to jurisdiction-wide determinations based merely on their network relationship status. We acknowledge the success the PCAOB has had in negotiating with other jurisdictions and strongly encourage the PCAOB to continue such negotiations, this Proposed Rule notwithstanding. As the factors in the Board's determinations can be broad, we believe that the PCAOB should continue the current approach of working with jurisdictions to address concerns such as data privacy and state secrecy laws.

We recognize that the PCAOB anticipates that most determinations under the Proposed Rule would be jurisdiction-wide determinations and that the PCAOB cannot anticipate every scenario it may encounter when conducting oversight of firms in foreign jurisdictions. When assessing a potential firm-based determination, we encourage the PCAOB to consider the potential adverse impact on competition within that jurisdiction that could result from such a determination and provide equivalent treatment to similarly-situated firms.

We are responding to select questions included in the Board's Proposed Rule for your consideration.

Question m. Is subparagraph (e)(2)'s approach to confidentiality considerations clear and appropriate? Are there any other grounds upon which the publicly available copy of a Board report to the Commission might need to be redacted?

We acknowledge and support that the Proposal indicates that the PCAOB will not publish information protected by confidentiality laws. For purposes of these determinations we believe that this treatment can be extended to all confidential information, whether explicitly covered by laws if that can be done without impeding the PCAOB's overall goal. We recommend the Board clarify that it will redact confidential information except to the extent necessary to explain the basis of a determination made under the rule.

Question n. Besides posting a copy of the Board's report to the Commission on the Board's website, should the Board notify stakeholders about Board determinations under the HFCAA by other means? If so, which stakeholders should receive such notice, and when and how should it be provided? Specifically, should registered firms that are subject to a Board determination receive notice of such determination, and if so, when and how should it be provided?

Yes. When the Board determines it cannot inspect or investigate completely a particular jurisdiction or firm, we believe any registered firm subject to a Board determination should be notified prior to a report being sent to the Commission or posted on the Board's website publicly. Such notification should be made using the Board's normal protocol for communication with



registered firms, using information provided in Form 2. See our responses below regarding the timing of notification and our views regarding providing a mechanism for re-evaluation. We do not believe that there are other stakeholders that should be required to receive notice outside of the registered firms.

Question p. Is it appropriate to have Board determinations become effective on the date the Board issues its report to the Commission? If not, when should Board determinations take effect?

It is appropriate to have Board determinations become effective on the date the Board issues its report to the Commission if there is sufficient notice to registered firms in advance and if a mechanism is in place to allow for re-evaluation. We encourage the Board to clarify what is intended by the date of report “issuance.” For example, is report issuance the date of the report or the date a report is made publicly available? If the latter, is the issuance date the date the report is publicly posted to the SEC or the PCAOB’s website and how will registered firms be made aware of such date?

Question q. Should the proposed rule provide registered firms with a mechanism to provide relevant information to, or to seek reconsideration or reevaluation by, the Board with respect to a Board determination? If so, when should such a process be available, what procedures should it entail, and how could it be administered so as not to interfere with the ability of the Board and the Commission to discharge their responsibilities under the HFCAA on a timely basis?

We believe there should be a mechanism to provide relevant information to, or to seek reconsideration or re-evaluation by the Board with respect to a Board determination. Such a process may involve a similar protocol to how some registered firms now respond to the Board’s inspection report with a formal response from the registered firm.

Question r. Is subparagraph (h)(1)’s annual consideration of changed facts and circumstances clear and appropriate? Should the Board consider changes in facts and circumstances more or less frequently than annually (e.g., semi-annually or biennially)? Should the Board publicly report the outcome of this process whenever the Board decides that reassessment of a prior determination is not warranted or that a prior determination should not be modified or vacated?

We believe annual consideration of changed facts and circumstances is appropriate. Firms and jurisdictions should also have the right to request a re-evaluation at any time if there is a valid triggering event such that facts and circumstances have changed. In other words, a registered firm should not have to wait until the next annual assessment if there are changes to relevant facts and circumstances. The outcome of any assessment (whether annual or otherwise) should be made public.

CAQ

We appreciate the opportunity to comment on the Proposed Rule. We would be pleased to discuss our comments or answer any questions regarding the views expressed in this letter. Please address questions to Vanessa Teitelbaum (vteitelbaum@thecaq.org) or Matt Sickmiller (msickmiller@thecaq.org).

Sincerely,



Vanessa Teitelbaum, CPA
Senior Director, Professional Practice
Center for Audit Quality

cc:

PCAOB

Duane M. DesParte, Acting Chairperson
Rebekah Goshorn Jurata, Board Member
Megan Zietsman, Board Member

SEC

The Honorable Gary Gensler, Chair
Caroline A. Crenshaw, Commissioner
Allison Herren Lee, Commissioner
Hester M. Peirce, Commissioner
Elad L. Roisman, Commissioner
Paul Munter, Acting Chief Accountant
Diana Stoltzfus, Deputy Chief Accountant