

Chair Gary Gensler
Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

December 20, 2024

Re: *Firm and Engagement Metrics and Related Amendments to PCAOB Standards*
Release No. 34-101724; File No. PCAOB-2024-06 (Nov. 25, 2024)

Dear Chair Gensler:

We write to strongly endorse the standards adopted by the Public Company Accounting Oversight Board (PCAOB) that would require additional reporting by auditors and the disclosure of standardized and comparable metrics that facilitate cross-firm comparisons and assessments of audit quality that would provide critical data for investors to make informed decisions.

The metrics set out in the PCAOB standard would require firms to disclose comparative information. Comparative metrics have at least two significant benefits. First, they reflect the information markets need to make investment decisions.¹ Second, comparative data reduces the likelihood of opportunistic disclosure. Most firms currently choose which metrics to disclose in their transparency reports. As voluntary disclosure, firms can include metrics that are favorable to the firm, cherry picking the most favorable information and obscuring the less favorable metrics. Moreover, to the extent particular metrics become less favorable over time, companies can change the metrics' definitions or terms or drop the reporting of certain metrics entirely. The PCAOB's proposal would require that firms report a common set of metrics that use common definitions.

The consistent and comparative metrics will also benefit audit committees. Audit committees sometimes struggle to know exactly what type of information about an engagement to seek from auditors. Even when audit committees ask for particular metrics, the firm may not have them available. The metrics required by the PCAOB will simplify this process by requiring the disclosure of a standardized suite of metrics that can be the basis for further discussion between committees and firms. Moreover, the PCAOB's standard would result in audit committees having access to metrics that are comparable, something impossible under the current system.

¹ As the PCAOB noted, the reports "are not consistent or comparable across firms in their computations, presentations and inclusion." PCAOB. "[Firm and Engagement Metrics](#)." Release No. 2024-012. November 21, 2024 at 24.

The metrics will also contribute to a data-driven approach to regulation and audit quality.² The PCAOB has a fellowship program that allows academics to mine non-public data provided by audit firms.³ The program has generated papers that provide remarkable insight into the auditing process. The program, however, is small and involves only a few fellows each year. Making these types of metrics public will unleash data-driven analyses by academics on audits that will undoubtedly provide extraordinary insight, benefiting all stakeholders, including the PCAOB.

Finally, the proposed standards extend an approach undertaken by the PCAOB that is long overdue and welcome. Standards adopted during the pre-PCAOB period of self-regulation reflected a “one-size-fits-all” approach, with the same requirements applicable to the largest and smallest firms. This approach failed to recognize differences between and among firms and differences in their role in the capital markets.

Beginning with the PCAOB’s Quality Control Standard, the PCAOB has recognized that auditing standards should vary depending upon the role of the firm in the capital markets.⁴ This proposal extends the requirement for metrics only to firms that audit accelerated or large accelerated issuers. Thus, the standard focuses on those firms responsible for auditing most of the market capitalization in the United States.

The objections to the required disclosure are misplaced and, frankly, reflect a mistaken view of investors and the governance process. Some comments raised concerns about the possibility of information overload⁵ and the inability of investors to accurately understand the metrics,⁶ with

² Several studies using PCAOB data provide insights into audit quality, benefiting regulators, investors, audit committees, and auditors. See Choudhary, Preeti, Kenneth Merkley, and Katherine Schipper. “[Auditors’ Quantitative Materiality Judgments: Properties and Implications for Financial Reporting Reliability](#).” *Journal of Accounting Research*. Vol. 57, Iss. 5. July 3, 2019; Choudhary, Preeti, Kenneth Merkley, and Katherine Schipper. “[The Costs of Waiving Audit Adjustments](#).” *Journal of Accounting Research*. Vol. 60, Iss. 5. July 5, 2022; Aobdia, Daniel, Preeti Choudhary, and Noah Newberger. “[The Economics of Audit Production: What Matters for Audit Quality? An Empirical Analysis of the Role of Mid-Level Managers within the Audit Firm](#).” *The Accounting Review*, Forthcoming. August 28, 2023; Choudhary, Preeti, Vikram Ramadas, and Jake Sigler. “[Putting the IT in Audit Risk: IT Complexity and IT Auditor Mitigation](#).” *SSRN*. April 17, 2023; Aobdia, Daniel, Preeti Choudhary, and Gil Sadka. “[Why Do Auditors Fail to Report Material Weaknesses in Internal Controls? Evidence from the PCAOB Data](#).” *SSRN*. December 18, 2020.

³ PCAOB. “[Economic Research Fellowship](#).”

⁴ See SEC. “[Public Company Accounting Oversight Board: Order Granting Approval of QC 1000, A Firm’s System of Quality Control, and Related Amendments to PCAOB Standards, Rules, and Forms](#).” Release No. 34-100968. September 9, 2024.

⁵ Johnson Global Advisory. “[PCAOB Release No. 2024-002, April 9, 2024: PCAOB Rulemaking Docket Matter No.041](#).” June 7, 2024 at 6. (“We are also concerned that these metrics will add more publicly available data and create more confusion over the audit and what matters.”).

⁶ Ernst & Young LLP. “[PCAOB proposing release on Firm and Engagement Metrics](#).” June 7, 2024 at 7. (“Metrics that are not clearly linked to audit quality are more likely to be misinterpreted or misused to make assessments about audit quality.”). Deloitte & Touche LLP. “[PCAOB Rulemaking Docket Matter No. 041](#).” June 7, 2024 at 3. (“The lack of sufficient and appropriate context could result in unintended consequences, including misinterpreting the metrics or drawing inappropriate conclusions on the perceived value and quality of the audit.”).

misinterpretation “inevitabl[e].”⁷ This is simply wrong and, at best, an outdated view of investor ability, harkening back to the era of manual typewriters and number two pencils.⁸ Markets today are dominated by large sophisticated institutions that rely significantly on technology and software in assimilating data. They have adequate capacity to assess the importance and significance of the metrics provided by auditors. Moreover, firms are free to add narrative that provides their view on the context of the relevant metrics.⁹

Perhaps even more problematic are objections that the metrics, particularly engagement level metrics, were somehow “inappropriate” information to give to investors¹⁰ and should not be used in making investment decisions.¹¹ These views reflect a deeply flawed view of corporate governance. Particularly in an era when passive investment increasingly predominates, investors seeking to improve share values rely extensively on engagement with management.¹² Engagement has increasingly focused on board level oversight of risk, with particular attention on the audit committee. Obtaining engagement level information on audits will facilitate conversations with audit committees about their oversight function.¹³

We view these standards as a beginning. Firm and engagement level disclosure related to

⁷ PricewaterhouseCoopers LLP. “[PCAOB Rulemaking Docket Matter No. 041](#).” June 7, 2024 at 2. (Metrics “likely presents too high a risk of misinterpretation by other users, such as investors.”).

⁸ Advisory Committee on Corporate Disclosure. “[Report of the Advisory Committee on Corporate Disclosure to the Securities and Exchange Commission](#).” 95th Congress 1st Session. Committee Print 95-29. November 3, 1977 at 382. (Noting opposition by “[m]any businessmen” to disclosure of business segments because “users would not understand” aspects of the reporting.)

⁹ The PCAOB noted that these types of concerns had also been raised with respect to prior disclosure standards but that the concerns “appear unsubstantiated.” PCAOB. “[Firm and Engagement Metrics](#).” Release No. 2024-012. November 21, 2024 at 36.

¹⁰ PricewaterhouseCoopers LLP. “[PCAOB Rulemaking Docket Matter No. 041](#).” June 7, 2024 at 7. (“It is not, and should not be, the role or responsibility of the investor to directly oversee the auditor.”).

¹¹ Center for Audit Quality. “[Proposing Release: Firm and Engagement Metrics: PCAOB Rulemaking Docket Matter No. 041](#).” June 7, 2024 at 3. (“Without a sufficient understanding of how – or if – investors would use the information presented in the proposed metrics (and taking into account the risk of inappropriate use), it does not seem appropriate to suggest that investors use such information to make investment and proxy voting decisions.”). KPMG LLP. “[PCAOB Rulemaking Docket Matter No. 041: PCAOB Release No. 2024-002: Firm and Engagement Metrics](#).” June 6, 2024 at 4. (“Mandating prescribed metrics available to all stakeholders creates an inappropriately designed, and inappropriate method for investors to monitor the responsibilities of the audit committee and overrides the audit committee’s gatekeeper function.”). PricewaterhouseCoopers LLP. “[PCAOB Rulemaking Docket Matter No. 041](#).” June 7, 2024 at A13. (“We have significant concerns with suggestions that investors should be expected to assess the allocation of firm time or resources to ratify auditor selection or, more troubling, to make decisions related to capital allocation.”).

¹² For an extensive discussion in the importance of, and the approach taken to, engagement by passive investors, see J. Robert Brown, Jr. “[Revisiting ‘Truth in Securities Revisited’ The SEC Disclosure Regime in the New Millennium](#).” November 5, 2024.

¹³ While essential to the governance process, shareholder engagement is not always viewed favorably. See BDO. “[Proposing Release: Firm and Engagement Metrics: PCAOB Rulemaking Docket Matter No. 041](#).” June 7, 2024 at 3. (“[W]e see the potential for audit committees to be pressured by investors and other stakeholders to only appoint firms with FEM within certain ranges or below certain thresholds without fully considering the vast array of circumstances where firms perform high-quality audits but may have reporting metrics that fall beyond those ranges or in excess of certain thresholds.”).

workload, training, retention, expertise, and restatement rates is a reasonable place to begin. In the future, as investors and other stakeholders use the information, we anticipate there will be opportunities to refine the approach and make the metrics even more useful.

Thank you for your attention to this matter. For further discussion, please contact Natalia Renta at natalia@ourfinancialsecurity.org.

Sincerely,

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)

Americans for Financial Reform Education Fund

Better Markets

Communications Workers of America

Consumer Federation of America

Interfaith Center on Corporate Responsibility

Oxfam America

Public Citizen

Revolving Door Project

Seventh Generation Interfaith Coalition for Responsible Investment

Zevin Asset Management