

January 30, 2025

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

Email: rule-comments@sec.gov

RE: File Number PCAOB-2024-06, Notice of Filing of Proposed Rules on Firm and Engagement Metrics and Related Amendments to PCAOB Standards

Dear Ms. Countryman:

We appreciate the opportunity to comment on SEC Release 34-101724, Notice of Filing of Proposed Rules on Firm and Engagement Metrics and Related Amendments to PCAOB Standards (the PCAOB adopting release or PCAOB Release 2024-012), which includes amendments to the PCAOB's rules and reporting forms to require reporting of specified firm-level and engagement-level metrics (the PCAOB Final Rules).

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs.

Based on considerations discussed below, the PSC is unable to support SEC approval of the PCAOB Final Rules.

The PSC provided feedback to the PCAOB (or the Board) in response to its proposed rules last year. The PSC would like to re-emphasize certain matters communicated to the Board regarding engagement-level metrics. The PSC does not believe the concerns expressed in our comment letter have been adequately addressed by the PCAOB.

Overall, the PSC believes the appointment, compensation and replacement of the external auditor is the sole responsibility of the audit committee. Any meaningful use or comparison of engagement-level information requires proper context, which can only be achieved by a back-and-forth dialogue among audit committee members, the company's current auditor and any potential new auditors. For example, a comparison of partner and manager audit hours or industry experience on one engagement to another engagement in the same industry requires knowledge of the unique circumstances of each engagement, which can only be obtained through inquiry by an audit committee. Without proper context, inferences or conclusions by investors based solely on engagement-level metrics could be misinterpreted and misleading.

The PSC also has the following overall concerns about the Proposal:

- Calculation of these metrics may require data to be stored in new or updated systems. The calculation of these metrics will involve significant work and investment into these systems,



for which a cost-benefit analysis should be performed for the metrics to be justified. As noted by Board Member Christina Ho, the economic analysis states that there is little evidence about whether the benefits exceed the costs because the necessary data does not exist. Then, in relation to costs, Board Member Ho highlights how the final rules acknowledge the difficulty to estimate potential costs that audit firms will incur to produce the final metrics. Last and as indicated by one commenter, the PCAOB has stated that those investors who are more likely to use the final metrics own or manage roughly 25% of U.S. equity capital. However, the cost to gather and prepare the metrics will ultimately be borne by issuers and investors representing 99% of the total market capitalization.

- The additional investments listed above will likely impact smaller firms disproportionately, pushing them out of the market for accelerated filers. In turn, this situation will hurt competition as opportunities are instead shifted to firms with a bigger base of accelerated and large accelerated filers.
- Most of the data points required as part of this proposal are currently available to the PCAOB. The Center for Audit Quality (CAQ) surveyed audit committee members and investors last year and found that over 90% of audit committee members and investors feel the information is already available to them to assess whether the quality of the audit meets most to all of their needs.
- The proposal calls for detailed metrics that many stakeholders will not use as they will contribute to information overload. The survey above revealed 78% of audit committee members have acknowledged they rarely or never use PCAOB's Registered Firms website.
- As discussed above, the PSC also believes that metrics, without adequate context, may represent just meaningless statistics. As a result, these metrics may not contribute to audit quality or investor protection. In fact, the results of the survey revealed that 73% of audit committee members have expressed potential challenges and limitations in interpreting proposed metrics. Likewise, most investors agree performance metrics need context to be relevant to specific audit engagements or a firm and that mandatory disclosure of engagement-level metrics could have unintended consequences and should be voluntary. To address the need for context, the PCAOB adopting release has allowed an optional narrative disclosure, but it is limited to 1,000 characters, which is less than 200 words. Such restriction will impact the quality and accuracy of the information being reported. In addition, 82% of audit committee members surveyed expressed concerns about data specific to their audit being publicly available.

Because of the concerns described above, the PSC is unable to support SEC approval of the PCAOB's Final Rules. The PSC believes further collaboration with and involvement of all stakeholders, such as audit committees, audit firms and investors, is critical prior to adoption of a metric disclosure standard. In addition, consideration of potential alternative approaches should be undertaken by the PCAOB to ensure information can be delivered to investors at a reasonable cost.

We appreciate the opportunity to submit comments on the proposed PCAOB Final Rules on *Firm and Engagement Metrics*.

Sincerely,



Jeffrey Johanns, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants