



February 28, 2022

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

**Re: PCAOB Request for Comment on *Advisory Groups – Draft Governance Frameworks*
(PCAOB Release No. 2022-001, January 31, 2022)**

Dear Ms. Brown:

The U. S. Chamber of Commerce (“the Chamber”) and its Center for Capital Markets Competitiveness (“CCMC”) appreciates the opportunity to comment on the Public Company Accounting Oversight Board (“PCAOB” or the “Board”) Request for Comment on *Advisory Groups – Draft Governance Frameworks* (“RFC”). We applaud the Board for expeditiously taking up the formation of two new advisory groups – the Standards and Emerging Issues Advisory Group (“SEIAG”) and the Investor Advisory Group (“IAG”) – and soliciting public comment on the structuring and convening of these groups.

The CCMC is very supportive of PCAOB advisory groups, which are consistent with the Board’s commitment to transparency, collaboration, and stakeholder engagement and communications. Advisory groups, appropriately focused and constituted, can assist the PCAOB in identifying emerging issues in auditing and developing policies that will support reliable financial reporting as an important tool to assist both investors and businesses, and facilitate efficient capital markets. The CCMC believes that PCAOB advisory groups should abide by the same rules of procedures as required of regulatory agencies by the Administrative Procedure Act (“APA”) and the Federal Advisory Committee Act (“FACA”) – and be balanced in presentation and open in process. Our comments on the RFC, including the recommendations the CCMC has made on audit oversight and regulation for over a decade, reflect this perspective.¹

The RFC outlines proposed frameworks for SEIAG and IAG covering their purpose and role, membership selection, size, composition, member terms, leadership, meetings and overall structure, meeting agendas, and non-voting attendees. CCMC’s comments focus on the proposals related to size and composition, member terms, leadership, meetings and overall structure, and non-voting attendees. We also reiterate our proposal that the PCAOB form a Business Advisory Group to provide a forum for dialogue on matters confronting issuers. Such a group will allow the PCAOB to have a full line of sight on both emerging issues and the consequences of audit oversight and regulation for the profession, investors, audit committees, and management.

¹ For example, see the attached letter dated September 10, 2018 from the U.S. Chamber of Commerce Center for Capital Markets Competitiveness to the PCAOB on the PCAOB *Draft Strategic Plan 2018-2022* (PCAOB Release No. 2018-001, August 10, 2018).

Proposed Frameworks for SEIAG and IAG

Size and Composition

The RFC calls for SEIAG and IAG to consist of up to 24 and 18 voting members, respectively. These proposed upper limits on size seem reasonable. The CCMC agrees that the size of each advisory group should be limited to avoid becoming unwieldy and to facilitate time for all members to participate in discussing the issues and expressing their views during public meetings.

However, notwithstanding the appropriately limited number of members, the RFC states that **one (or more)** IAG members will also serve as members of SEIAG. The CCMC strongly disagrees with this approach – individuals should serve on one advisory group or the other, but not both.

According to the RFC, dual membership is needed to ensure communication between IAG and SEIAG. This is not a compelling rationale.² Any necessary communication (or coordination) can be achieved in other ways, especially considering the roles and involvement of PCAOB Board members and staff in both groups. Furthermore, communication occurs naturally through transparency on the activities of each group. For example, members of IAG will be informed through the public materials and meetings of SEIAG and vice versa.

Precluding dual membership is important for other reasons, too. For example, the (appropriately) limited number of SEIAG members need to represent a variety of different areas of expertise (i.e., accounting (including financial reporting), auditing, corporate finance, corporate governance, investing in public companies, and other areas that the Board deems relevant). The RFC states that the Board expects to appoint SEIAG members from each (all) of the (five or more) areas of expertise to ensure diversity of thought and perspective. The CCMC supports this important objective. Yet, appointing the same individual(s) to both IAG and SEIAG only serves to undermine it.³

Member Terms

The RFC proposes two-year terms for SEIAG and IAG members (with 50% of initial members appointed for a three-year term for continuity). The CCMC agrees with this approach.

² We also note the RFC provides that membership on each advisory group is personal to the individuals selected to serve. IAG will consist only of investors, while individuals with expertise investing in public companies are among those that will serve on SEIAG. Although not optimal, including for obtaining diverse views and perspectives, the proposed frameworks do not appear to preclude different individuals from the same investor-related organization serving on IAG and SEIAG.

³ To further ensure diversity of thought and perspective and hear the views of those outside the PCAOB, the CCMC recommends that former PCAOB board and staff members should be precluded from appointment to either SEIAG or IAG.

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The RFC also calls for membership on each to be limited to six consecutive years. We agree with a six-year limit, but we encourage the PCAOB to drop the word “consecutive” to avoid any attempts to “game” membership appointments. We realize this means initial appointees with three-year terms would only have five years total (i.e., terms of three and two years), which seems a minor trade-off to avoid problems down the road.

In addition, given the large number of potential individuals with the relevant investor-related expertise to serve on SEIAG and IAG and the need to ensure diversity of thought and perspective, we strongly recommend a limitation of six years of service for any individual to membership on SEIAG and IAG taken together. For example, four years of service (two terms) on SEIAG would limit an individual with relevant expertise and/or experience in investing in public companies to serving on IAG for two years (one term) (or vice versa).⁴

This overall approach will allow the PCAOB to have a wide-ranging set of views presented from a fresh perspective.

Leadership

The RFC contemplates that IAG will have co-chairs, with the member co-chair elected by IAG and the PCAOB Board or staff person appointed by the Board. SEIAG will be chaired by the PCAOB Chief Auditor (a non-voting member), although the Board may consider appointing a co-chair. The CCMC strongly recommends that the PCAOB use the same leadership model for both IAG and SEIAG – that is, SEIAG members should elect a co-chair.

Meetings and Overall Structure

The RFC states that both SEIAG and IAG will have at least two public meetings per year. Further, the RFC provides that each group can have additional ad hoc public or non-public meetings as necessary or appropriate and non-public breakout groups may be convened at meetings. The CCMC appreciates there may be some types of non-public activities that play a role in advancing the discussions of each advisory group. However, we strongly recommend that any such activities abide by APA and FACA. Relatedly, when allowable non-public activities are considered necessary or appropriate, the PCAOB should provide transparency on the timing, agenda, and results for them.

The RFC states both SEIAG and IAG will have the ability to establish subcommittees and task forces. The CCMC believes that subcommittees and task forces, functioning in accordance with APA and FACA, can be useful to an advisory group

⁴ To further ensure diversity of thought and perspective, the CCMC also recommends that the PCAOB consider service on a prior Standing Advisory Group (“SAG”) and/or Investor Advisory Group (“prior IAG”) in conjunction with this requirement in appointing members of SEIAG and IAG. Thus, for example, individuals appointed to these prior advisory groups for terms totaling six-years or more (considering both SAG and the prior IAG) would be precluded from appointment to SEIAG and IAG.

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Task forces are particularly important in the audit standard-setting process.⁵ Thus, the CCMC supports the use of task forces to facilitate SEIAG in its role to advise the PCAOB on existing standards, proposed standards, and potential new standards. Further, the CCMC strongly encourages the PCAOB to clarify that standard-setting task forces, while including members of SEIAG, need not be limited to such members.

As previously discussed, the size of SEIAG is appropriately limited and members' expertise in accounting, auditing, corporate finance, corporate governance, or investing in public companies would be expected to be broad. In turn, this means that SEIAG need not have members with specific subject matter expertise on any particular standard-setting topic relevant to the PCAOB at the time. Especially problematic is having requisite subject matter expertise to inform crafting the intricacies and technicalities of a standard in order to facilitate and advance the work of the PCAOB staff in developing and drafting standards involving auditor performance. The PCAOB can address this practical challenge by forming topic specific task forces consisting of individuals with subject matter expertise that include, but not are limited to, SEIAG members.

Non-Voting Attendees

The RFC calls for a representative of the Securities and Exchange Commission ("SEC") to be a non-voting attendee at IAG meetings and a representative of each of the SEC, Financial Accounting Standards Board, and International Auditing and Assurance Standards Board ("IAASB") to be non-voting attendees at SEIAG meetings. The CCMC recommends the PCAOB clarify that this attendance extends to all meetings for each group, including non-public meetings involving members of either group (e.g., SEIG and IAG breakout sessions, task force meetings, and subcommittee meetings).

Further, we recommend the PCAOB provide clarity on the intent for using the term "non-voting" ("voting") member. Previously, the PCAOB used the term "observer" to denote attendees with speaking rights that were not members of an advisory group. In addition, previous advisory groups discussed the issues but did not reach conclusions or develop consensus recommendations. Continuing with this approach appears to be consistent with the intent to ensure that SEIAG and IAG provide a forum for the PCAOB to hear a diversity of thought and perspectives on the issues.

Business Advisory Group

As part of forming advisory groups, the CCMC encourages the PCAOB to form a Business Advisory Group to understand the role of companies as investors, their use of investments, and the potential impact of PCAOB activities on businesses.⁶

⁵ See the attached letter from the CCMC to the PCAOG dated September 10, 2018.

⁶ See the attached letter from the CCMC to the PCAOB dated September 10, 2018.

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Public companies (issuers) and broker-dealers are important stakeholders in audit regulation and oversight. Dialogue with a Business Advisory Group would help the PCAOB better appreciate business operations and emerging issues, as well as enhance the development and implementation of PCAOB audit standards and rules and avoid the unintended consequences of PCAOB inspections on businesses.

An example of this recommendation is the dialogue held in 2015 and 2016, that was facilitated between SEC Chief Accountant Jim Schnurr, PCAOB Chair Jim Doty and the business community. These discussions allowed all parties to address unintended consequences of inspections on matters related to internal control over financial reporting. That process was productive for all parties involved and made the PCAOB a better informed and more effective regulator. We believe that such a permanent dialogue, through a Business Advisory Group, will give the PCAOB a better grasp of issues and help develop PCAOB standards and rules that are targeted to solve real-world problems.

Concluding Remarks

In conclusion, we view the expeditious formation of two new advisory groups as consistent with the Board making standard-setting a priority for the PCAOB. The CCMC strongly supports this priority. A number of the PCAOB's existing auditor performance standards, along with its quality control standards, were promulgated by the American Institute of Certified Public Accountants ("AICPA") before the Sarbanes-Oxley Act of 2002.⁷ Since 2002, both IAASB and the AICPA's Auditing Standards Board have each revised many of their standards, or have proposals outstanding to do so.

Further, changes have occurred in both the environment and practice of auditing. For example, technology has transformed the audit process, as well as the systems and processes of companies and broker-dealers. Moreover, during the last two years, the pandemic has transformed the nature of work for businesses and auditors alike.

In addition to prioritizing standard-setting and reconsidering the PCAOB's auditor performance and quality control standards in light of these developments, the CCMC also recommends that the Board continue to strengthen related standard-setting activities, including economic analysis; improve transparency and accessibility through proactive engagement with stakeholders via activities beyond SEIAG and IAG, such as a Business Advisory Group; and enhance coordination and communication with regulators and standard-setters.⁸

Finally, it is important that the PCAOB also engage in activities to ensure that it is on the cutting edge of issue identification and solution development. Accordingly, we repeat the recommendation that the PCAOB hold a roundtable on audit transformation, which CCMC made

⁷ The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank") added broker-dealer audits to the PCAOB's oversight responsibilities.

⁸ For some suggestions in this regard see the attached letter from the CCMC to the PCAOB dated September 10, 2018.

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in our 2018 letter (attached) in response to the PCAOB's request for comment on the 2018-2022 draft Strategic Plan. This roundtable will allow the PCAOB to better understand how technology is shaping developments in audit practice and the future of work. Such a roundtable and its aftermath will aid the PCAOB in better positioning itself to use technology in an appropriate and productive manner.

Thank you for your consideration and we stand ready to discuss these matters with you further.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Quadman', with a long, sweeping horizontal stroke extending to the right.

Tom Quadman