

COMMITTEE ON CAPITAL MARKETS REGULATION

February 26, 2026

Demetrios (Jim) Logothetis
Chairman
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

VIA EMAIL

Dear Chairman Logothetis:

The appointment of new board members to the Public Company Accounting Oversight Board (the “**PCAOB**”) presents an opportunity to modernize and enhance the PCAOB’s standard setting, inspections, and enforcement functions. This letter by the Committee on Capital Markets Regulation (the “**Committee**”) sets forth recommendations that would do so and thereby enhance public company audit quality.

Founded in 2006, the Committee is dedicated to enhancing the competitiveness of U.S. capital markets and ensuring the stability of the U.S. financial system. Our membership includes forty-four leaders drawn from the finance, investment, business, law, accounting, and academic communities. The Committee is chaired jointly by R. Glenn Hubbard (Emeritus Dean, Columbia Business School) and John L. Thornton (Former Chairman, The Brookings Institution) and is led by Hal S. Scott (Emeritus Nomura Professor of International Financial Systems at Harvard Law School and President of the Program on International Financial Systems). The Committee is an independent and nonpartisan 501(c)(3) research organization, financed by contributions from individuals, foundations, and corporations.

Standard Setting

The PCAOB does not have a policy for engaging with the public and various stakeholders—including audit firms, issuers, and audit committees—during its standard setting process. Although the PCAOB does accept public comment on its standard setting proposals, it does not have any statutory requirement to take such comments into consideration, nor does it have a public policy explaining how it will do so.¹

The Committee recommends that the PCAOB establish public stakeholder engagement policies that require the PCAOB to engage with the public and relevant stakeholders during pre-proposal development and require the PCAOB to respond to public comments on proposals. Increasing transparency and stakeholder engagement will help ensure that the PCAOB’s agenda responds to market realities, and that proposed standards are realistic and practicable from the outset.

¹ PCAOB, *Staff Guidance on Economic Analysis in PCAOB Standard Setting* (Feb. 14, 2014), https://pcaobus.org/oversight/standards/economic-analysis/05152014_guidance; see also Allison Henry, *US Audit Board Needs Structural Reform, Insulation from Politics* (Feb. 10, 2026), <https://news.bloomberglaw.com/tax-insights-and-commentary/us-audit-board-needs-structural-reform-insulation-from-politics> (“[T]he PCAOB should clearly explain how stakeholder input informs final decisions.”).

Another fundamental issue with the PCAOB’s standard setting process is that the PCAOB does not provide adequate guidance to firms attempting to implement new standards, which results in unnecessary and costly failures by audit firms to comply with PCAOB standards.

For example, the prior PCAOB Board updated twenty-seven standards and rules, and in 2024 took more actions on standard-setting and rulemaking than in any year since 2003.² Despite this, the PCAOB has issued only a handful of written guidance documents since 2020 and has not issued any “Staff Audit Practice Alerts”—designed to highlight how new and emerging circumstances impact existing PCAOB standards—in nearly a decade.³ This is particularly striking given the widespread recognition that technological innovations are rapidly changing financial reporting and audit processes.⁴ Moreover, while the SEC has a formal consultation process for companies and auditors to engage with the Office of the Chief Accountant (the “OCA”) regarding accounting and auditing questions, the PCAOB has no similar process.⁵

We recommend that the PCAOB establish a transparent consultation process for auditors to obtain guidance on questions that arise in applying new auditing standards and rules and that the PCAOB issue written interpretive guidance when appropriate. Such consultation and guidance will increase compliance with standards and improve audits.

Inspections

In recent years, PCAOB inspections have become more frequent and burdensome, however it is unclear whether the increase in audit inspections is enhancing audit quality.

In 2024, the PCAOB inspected 171 firms and reviewed 803 audit engagements compared to 153 firms and 631 engagements in 2020.⁶ Inspections have also become more time intensive, with PCAOB hours per inspection increasing by 35% since 2020.⁷

While inspection burdens have increased, it is not clear that the inspections are providing meaningful information. Some have noted a lack of consistency in what constitutes a “deficiency” or “inspection finding” in the written inspection reports the PCAOB issues after each inspection

² PCAOB, *Chair Williams Urges Firms to “Keep Up Momentum” as PCAOB Inspectors See Significant Improvements in Aggregate Deficiency Rate at the Largest Firms* (Dec. 10, 2024), <https://pcaobus.org/news-events/speeches/speech-detail/pcaob-chair-williams-urges-firms-to-keep-up-momentum--as-pcaob-inspectors-see-significant-improvements-in-aggregate-deficiency-rate-at-the-largest-firms>.

³ PCAOB, *Staff Guidance Database* (Last Visited, Feb. 26, 2026), <https://pcaobus.org/oversight/standards/staff-guidance>.

⁴ See, e.g., Kurt Hohl, *Statement in Connection with the 2025 AICPA Conference on Current SEC and PCAOB Developments* (Dec. 19, 2025), <https://www.sec.gov/newsroom/speeches-statements/hohl-statement-aicpa-conference-121925>; PCAOB, *Archive – Technology Innovation Alliance Working Group* (Last Visited, Feb. 26, 2026), <https://pcaobus.org/about/working-groups-task-forces/technology-innovation-alliance-working-group>.

⁵ SEC, *Office of the Chief Accountant* (Last Visited, Feb. 26, 2026), <https://www.sec.gov/about/divisions-offices/office-chief-accountant>.

⁶ PCAOB, *Staff Update and Preview of 2021 Inspection Observations* at 5 (Dec. 2022), <https://assets.pcaobus.org/pcaob-dev/docs/default-source/documents/staff-preview-2021-inspection-observations-spotlight.pdf>; PCAOB, *Staff Update on 2024 Inspection Activities* (Mar. 2025), <https://pcaobus.org/documents/staff-update-2024-inspection-activities-spotlight.pdf> at 9.

⁷ Richard Palmer, *Insights from Fifteen Years of PCAOB Inspections*, THE CPA JOURNAL (Sept./Oct. 2025), <https://www.cpajournal.com/2026/02/05/insights-from-fifteen-years-of-pcaob-inspections-2/>

(“PCAOB inspection reports”). These inconsistencies make the PCAOB’s inspection reports less useful. Indeed, a 2023 study found that most institutional investors do not read PCAOB inspection reports, with some expressing the view that the subsequent lack of financial restatements indicates that any deficiencies identified in the inspection reports were immaterial.⁸ Inspections focusing on minor details can be more problematic and costly than helpful in enhancing audit outcomes.

The Committee recommends that the PCAOB adopt a formal framework governing inspections via a public consultation process. The policy should set guidelines on the scale and purpose of inspections. The policy should focus inspections on an audit firm’s quality control systems, as such systems have the biggest impact on overall audit quality.⁹ For example, an audit firm’s quality control system that does not adequately assess the complexity of potential audit clients could result in repeatedly accepting clients for which that audit firm is not equipped to perform high quality audits. Further, the PCAOB’s new inspection framework should identify and standardize the criteria for identifying audit deficiencies. Formalizing and standardizing the inspection process will reduce unnecessary burdens, increase the efficiency of PCAOB inspections, and improve the utility of PCAOB inspection reports.

Enforcement

The PCAOB has authority to bring enforcement actions against registered public accounting firms for violations of PCAOB rules and standards as well as violations of securities laws and SEC rules related to auditing.¹⁰ The SEC also has enforcement authority over the violation of certain PCAOB rules.¹¹ PCAOB enforcement authority therefore overlaps with the SEC’s enforcement authority.¹²

The PCAOB and SEC lack a clear policy for allocating enforcement authority when they have concurrent jurisdiction.¹³ The SEC’s policy states only that it should take into account factors including, “differences between possible charges and remedies, the nature of the conduct, and the standards involved.”¹⁴ We therefore recommend that the PCAOB and SEC adopt a policy that clearly delineates how enforcement actions will be allocated to avoid duplication. Considering the SEC’s greater enforcement resources and expertise, the PCAOB should generally defer to the SEC

⁸ KRC Research, *Perspectives on Corporate Reporting, the Audit, and Regulatory Environment: Institutional Investor Research Findings* at 10 (Nov. 2023), https://thecaq.wpenginepowered.com/wp-content/uploads/2023/11/caq_perspectives-on-corporate-reporting-the-audit-and-regulatory-environment_2023-11.pdf.

⁹ See, e.g., Hohl, *supra* note 4.

¹⁰ 15 U.S.C. § 7215.

¹¹ See, e.g., Exchange Act Section 4C and Rule 102(e)(1)(ii)

¹² SEC DIVISION OF ENFORCEMENT, *Enforcement Manual* (Feb. 24, 2026), <https://www.sec.gov/divisions/enforce/enforcementmanual.pdf> (“The SEC and PCAOB generally have concurrent jurisdiction over auditors.”).

¹³ Alison Forman, *2023 Enforcement Activity Involving Auditors* at 8 (Jan. 2024), https://www.brattle.com/wp-content/uploads/2024/01/2023-Enforcement-Activity-Involving-Auditors_Final.pdf (“In general... the two regulatory bodies have not been transparent about why certain actions go to the PCAOB versus the SEC, or vice versa, when both have jurisdiction...”).

¹⁴ SEC DIVISION OF ENFORCEMENT, *Enforcement Manual* at Section 5.4 (Feb. 24, 2026), <https://www.sec.gov/divisions/enforce/enforcementmanual.pdf>.

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to take enforcement actions at least with respect to any securities laws violations and SEC rules relating to audits.

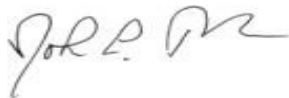
Conclusion

The Committee's recommendations for improving and modernizing the PCAOB standard-setting, inspections, and enforcement processes will make these activities more efficient and reduce burdens on auditors and the public companies that they audit, while also enhancing audit quality. The recommendations therefore align the PCAOB with its mission to promote the preparation of informative, accurate, and independent audit reports, increasing public trust in U.S. capital markets. Moreover, efficiency gains at accounting firms and the PCAOB itself will protect the interests of investors by reducing costs for public companies that pay for audit services and provide the PCAOB's funding. These recommendations would therefore enhance the attractiveness of U.S. public markets.

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Thank you very much for your consideration of the Committee's position. Should you have any questions or concerns, please do not hesitate to contact the Committee's President, Professor Hal S. Scott (hscott@capmksreg.org) or its Executive Director, John Gulliver (jgulliver@capmksreg.org) at your convenience.


Respectfully submitted,



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CO-CHAIR



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