

May 8, 2025

The Honorable Jodey Arrington
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC. 20515

The Honorable Brendan Boyle
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC. 20515

The Honorable French Hill
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC. 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC. 20515

Re: Eliminating the PCAOB Would Cause Significant Harm to U.S. Financial Markets/House Concurrent Resolution 14

Chairmen Arrington and Hill and Ranking Members Waters and Boyle:

We are a former Chairman and five former Board Members of the Public Company Accounting Oversight Board ("PCAOB" or "Board"), including two former Acting Chairmen, three founding Board Members, a former Member of Congress, and a former General Counsel of the PCAOB. Two of us were also senior officials at the U.S. Securities and Exchange Commission ("SEC" or "Commission"), serving as Commission General Counsels.

We are deeply concerned about the impact on the U.S. capital markets of Section 50002 of Concurrent Resolution 14 on the Budget for Fiscal Year 2025 ("bill"). The bill, which was reported out of the House Financial Services Committee on April 30, would amend the Sarbanes-Oxley Act of 2002 ("Act") to eliminate the PCAOB and transfer its functions to the SEC. We believe strongly that this legislation risks great harm to our capital markets and to the investors and companies that rely on the integrity of the financial reporting that underpins those markets.

The Act established the PCAOB following a series of auditing failures, highlighted by revelations of fraudulent financial reporting that caused the collapse of Enron (at one time the fifth largest company in the U.S.), WorldCom (the 21st largest company), and their auditor, Arthur Andersen (then the second-largest accounting firm in the world). When these organizations shut their doors, thousands of employees lost their jobs and retirement savings. Further, under enhanced scrutiny, it was discovered that numerous other public companies had also significantly overstated their financial health -- undetected or, in some cases, enabled by their auditors.

These financial reporting failures caused a precipitous stock market drop in which investors lost billions of dollars. That market crisis sparked a consensus on the urgent

need for strong, independent auditor oversight. The Act was passed by overwhelming majorities of 423-3 in the House and 99-0 in the Senate, and President George W. Bush signed it into law.

During the past 22 years, the Board has significantly improved the quality of public company auditing. Investors have more reliable financial information upon which to make decisions and, as a result, our markets are more efficient and resilient. In light of that record, shifting the PCAOB's work to the SEC is a bad idea. We outline below three of our chief concerns.

1. *Transferring the PCAOB's functions to the SEC would weaken auditor oversight and damage our capital markets.*

The benefits of PCAOB oversight have been well-documented. For example, researchers have reported that, after an inspection in which a deficiency is found, both the engagement partner who had the deficiency and other partners in the same office increase their audit effort. Further, by focusing on the audit of internal control required under Section 404 of the Act, the PCAOB's inspection program has indirectly spurred companies to strengthen the controls over their financial reporting. Overall, the annual number of restatements filed with the SEC has fallen sharply since 2003, and we believe that the PCAOB's work is a major reason.

We are skeptical that the SEC could replicate the PCAOB's expertise and infrastructure with similar positive results. The PCAOB's sole focus is on effective auditor oversight. In contrast, SEC already has a broad range of responsibilities. Auditor oversight would be simply another item on a long list of Commission priorities. We are concerned that adding this complex and resource-intensive responsibility to the Commission's mandate would dilute both auditor oversight and the SEC's ability to accomplish other critical facets of its investor protection mission.

Even if the SEC could eventually re-create inspections and standard-setting functions comparable to the PCAOB's programs, doing so could take years, and there would be considerable disruption and lack of continuity in the interim. Under the current structure, the SEC oversees and directs the PCAOB without having to invest its limited resources in day-to-day auditor oversight. That model has worked well and should not be replaced by asking an already-stretched SEC to become the frontline audit regulator.

2. *The bill would significantly increase the exposure of U.S. investors to the risk of foreign financial reporting fraud.*

When the PCAOB began its oversight program, it faced extraordinary headwinds in inspecting public accounting firms based outside the U.S. that audit companies trading in our securities markets. Authorities in other countries were often reluctant to permit Board inspections in their territory. After years of difficult negotiations, the PCAOB was able to reach agreements with counterparts in most jurisdictions.

However, in some cases, including China, Congress had to prod foreign regulators into cooperation. The Holding Foreign Companies Accountable Act of 2020 (“HFCAA”) requires delisting of any non-U.S. company if the PCAOB cannot inspect its auditor for two consecutive years because of restrictions imposed by the auditor's home country. The HFCAA passed unanimously in both the House and the Senate and was signed by President Trump. Under the HFCAA delisting threat, the Chinese regulators finally entered into a Statement of Protocol with the PCAOB in 2022, permitting inspections in the PRC and Hong Kong.

Today, the PCAOB has agreements with twenty-seven non-U.S. counterparts to coordinate inspections and other oversight activities. In 2024, the PCAOB inspected 78 non-U.S. accounting firms, covering portions of 221 audits of U.S. publicly-traded companies. In a significant number of those inspections, the PCAOB uncovered audit deficiencies that would not otherwise have been detected.

The SEC does not have agreements that enable it to inspect accounting firms in other countries. If the PCAOB’s functions were transferred to the SEC, it would be unlikely that the SEC could negotiate new agreements with the required jurisdictions in time to avoid mandatory delisting of many companies. Even if Congress repealed the HFCAA to avoid delisting, without the deterrent effect of inspections, non-U.S. audit work would undoubtedly weaken again, increasing the risk of material errors and fraud in financial statements on which U.S. investors rely.

3. *The PCAOB receives no federal funding, but the bill would shift the cost of auditor oversight to taxpayers.*

Under the Act, the PCAOB is funded exclusively by market participants and does not receive any taxpayer funding. Rather, its work is supported by fees, the lion’s share of which are paid by the largest companies in the world, including non-U.S. companies that enjoy the privilege of participating in our markets. Thousands of smaller public companies are exempt from the fee because their allocation falls below the assessment threshold. Transferring the PCAOB’s duties to the SEC would require that Congress increase the SEC’s annual appropriation to support these new responsibilities. This would inevitably increase the federal budget deficit.

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Financial statement audits are the linchpin of our capital markets. In the years leading up to the creation of the PCAOB, the markets experienced a damaging loss of confidence in auditing with calamitous consequences for investors, public companies, and the general public. The PCAOB was designed to reduce the risk of similar crises by keeping a laser-like focus on the quality and reliability of public company auditing. The PCAOB has worked. We urge you not to jeopardize that progress. This deeply flawed bill should be removed from Concurrent Resolution 14.

Letter from Former PCAOB Board Members

May 8, 2025

Page 4

Thank you for your consideration of our views.

Respectfully,

James R. Doty
PCAOB Chairman, 2011-2018
SEC General Counsel, 1990-1992

Steven B. Harris
PCAOB Board Member, 2008-2018

Lewis H. Ferguson
PCAOB Board Member, 2011-2018
PCAOB General Counsel, 2004-2007

Kayla J. Gillan
Founding PCAOB Board Member,
2002-2008

Bill Gradison
Founding PCAOB Board Member, 2002-2011
Acting PCAOB Chairman, 2005-2006
Member of Congress (R-OH), 1975-1993

Daniel L. Goelzer
Founding PCAOB Board Member,
2002-2012
Acting PCAOB Chairman, 2009-
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SEC General Counsel, 1983-1990