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June 14, 2024

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street NW  
Washington, D.C. 20006-2803

## Re: Firm Reporting

Dear Office of the Secretary:

RSM US LLP (RSM or we) values the opportunity to offer our comments on the Public Company Accounting Oversight Board's (PCAOB or the board) *Firm Reporting* (the proposal). RSM is a registered public accounting firm serving middle-market issuers, brokers and dealers.

### Overall Comments on the Proposal

We support transparency and communication between the PCAOB, auditors, audit committees and investors; however, we have concerns on the proposal as written and encourage further discussion and consideration, as outlined in the pages that follow.

We have focused on four key themes:

#### *PCAOB Statutory Authority*

We encourage the board to further assess the extent to which it has the statutory authority to issue certain aspects of the proposal. We support the Center for Audit Quality (CAQ) response on this subject.

#### *Utility and Usefulness of Reported Data*

We understand the PCAOB's interest in providing information about a public accounting firm to allow investors to make informed decisions about the management and financial health of the firm. The objective to improve reporting requirements to facilitate "more public disclosure" about a firm's ability to conduct quality audits may provide additional insight to inform investors, audit committees and other stakeholders but may not meet its intent. We believe that the proposal falls short of identifying how the additional reporting requirements will produce useful, comparable results for investors, audit committees and other stakeholders.

#### *Cost of Reported Data*

The implementation costs to firms to comply with the proposal are not fully quantified or evaluated. We are concerned that the proposal has not demonstrated how such costs will yield the intended benefits to investors and audit committees regarding transparency about a firm's audit quality. We recommend the PCAOB perform further cost-benefit analysis, including public engagement in and disclosure of such analysis while being performed, to determine whether the benefits to investors and other stakeholders justify the costs to aggregate and prepare these disclosures.

#### *Cybersecurity*

We share the PCAOB's concerns about cybersecurity attacks, given the attractiveness of accounting and financial data in our purview. While the required reporting of a cyber incident to the PCAOB is a fair

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request of a firm, we want to be confident that any data we are providing to the PCAOB—whether about an incident or to meet reporting requirements—is also securely held. Should data in PCAOB systems get into the hands of a threat actor, that information can be used to infiltrate a firm and exfiltrate client data. We believe the PCAOB should provide evidence and assurance that its computer systems have been audited via a security assessment to ensure the appropriate measures are in place. This should include audited evaluations of companies that interact with and provide services to the PCAOB, such as subcontractors and vendors, and their additional business connections.

Lastly, we continue to be concerned about the lack of time provided for responses to the board's exposure drafts. Allowing only 60 days for comment letter responses is foundationally disproportionate to the effort required to fully evaluate and respond to the lengthy and detailed proposal. We are concerned that the stakeholders are not being given reasonable opportunity to analyze the proposals and to provide the board with thoughtful, constructive responses.

We provide further detail on these areas, as well as other comments, in our responses to the specific questions set out below. Given the compressed timeline for response to the questions in the proposal, we did not respond to each individual question.

#### **Comments on Specific Questions Posed by the Board**

2. Should the Board consider enhanced reporting in the area of auditor resignations, withdrawals, or dismissals? The Board's current rules require auditor reporting of auditor changes only where the issuer has failed to comply with its Form 8-K requirements. Should we consider requiring audit firm reporting of resignations, withdrawals, or dismissals, irrespective of issuer compliance with its reporting obligations?

No, this information is already reported on Form 8-K. This appears to be a duplication of effort to report information that is already available to the public.

3. In its 2023 Annual Report, the Financial Stability Oversight Council discussed the heightened vulnerability of the financial system to certain factors.<sup>46</sup> Should any of these elements discussed in this report be considered in our new reporting rules? Why or why not?

Other than cybersecurity, the factors presented appear to be primarily focused on the financial services industry and are not applicable to accounting firms.

5. Is our proposal to provide for confidential reporting of certain information, namely financial statements from the largest firms, special reporting of material events, and cybersecurity incident reporting, appropriate? Why or why not? Should we require any of the confidential information to be reported publicly? If so, what information? Is the proposed approach to conflict of laws appropriate?

We ask for clarification about what determines a material event, as we believe it could be open for interpretation and therefore subject to inconsistency among firms. We are also concerned that the change in legal structure for those firms with private equity investments may lead to further inconsistencies in benchmarks.

We do agree that if required, items and (or) situations should be afforded confidential treatment.

7. Should we consider other types of financial information, in addition to fee information, for public disclosure? If so, what types of financial metrics would be useful to investors and other stakeholders?

We request that the PCAOB more clearly define the regulatory need for and the objective of having a firm's financial information and describe what would be the intent of making public disclosure of such information.

8. Are the proposed fee reporting requirements clear and appropriate? Will they elicit useful information for investors, audit committees, and other stakeholders? Is there other revenue or expenditure information that should be reported?

Fee data is already publicly available in filings of issuer clients; therefore, individual firms republishing this data appears redundant and unnecessary. In terms of other revenue or expenditure information that should be reported, we are unclear how this information would be useful to investors and other stakeholders, but if reported, we believe it would be more relevant to include information relating to the audit practice rather than the firm as a whole.

9. Would it be beneficial to require further disaggregation of non-audit service fees, such as a classification of non-audit services broken down by issuer, broker-dealer, investment adviser, municipal, and private commercial clients?

No, we do not believe such disaggregation would be helpful or comparative. We don't believe information related to private company audits performed by the firm is relevant to the PCAOB inspection or registration process.

11. Should we require a larger subset of firms to submit financial statements confidentially? For example, should we require all firms subject to annual inspection, or all firms that conduct audits of issuers representing a certain market capitalization, to submit financial statements confidentially?

The PCAOB inspection process currently requests, and firms provide, financial information as determined to be relevant to the evaluation of the firm. This includes both quantitative information and qualitative discussions related to the firm's financial wherewithal. The proposal has not justified what information is currently lacking from this process that would necessitate expansion of the requirement to submit financial statements.

12. Should financial statements for any subset of firms be disclosed publicly?

No, we do not believe it would be appropriate for the PCAOB to publicly disclose such information.

13. Is the requirement that financial statements be presented in accordance with an applicable financial framework reasonable? Are the accommodations allowed during the interim transition period reasonable? Are there exceptions or modifications to the applicable financial reporting framework that we should accept?

As noted in the release, most firms do not prepare GAAP financial statements because their financial statements are prepared in accordance with an other basis required by contract or loan. We question whether providing GAAP financial statements would provide incremental benefit to the PCAOB for the costs incurred by firms, who would continue to need to report on the basis of accounting required by

existing contracts or loans. There may be a significant financial impact on firms in requiring them to comply with certain financial framework only for reporting to the PCAOB. Firm reporting is typically perform using an other comprehensive basis of accounting designed to meet the needs of managing a business; that may or may not be consistent and comparable across industries or entities. Prior to enacting such a requirement, the PCAOB should provide a more comprehensive explanation of what such financial information would be used for and how the currently provided financial information fails to provide the PCAOB with information necessary to perform its oversight function.

15. Should we define the fiscal year for firms required to submit financial statements?

No, firms have different fiscal year ends. It should be left to the firms to determine appropriate annual reporting, which is typically aligned with their fiscal year end. Fiscal year ends are often included in partnership agreements and other legal documents, which would need to be changed to accomplish such a requirement. The proposal does not demonstrate an appropriate benefit for such cost.

18. Should we consider requiring more structured reporting such as XBRL of the financial statements or any other element of this proposal? Are there other ways to incorporate a data taxonomy into reporting? Are there other approaches we should consider to increase the utility of reported financial information both internally and for the public?

There are likely a small number of firms that may qualify for the threshold of financial reporting and the financial statements are proposed to be submitted confidentially. Thus, the usefulness and benefits of data from a very small population of firms—at a tremendous cost—is limited. The added cost of XBRL would likely not provide a benefit that exceeds the cost.

20. Should we consider changing the reporting period (April 1 through March 31) and reporting deadline (June 30) of Form 2 in light of the additional proposed financial reporting items, or any of the other additional proposed period reporting items? Should we consider revising the Form 2 reporting period and deadline to align with the reporting period and deadline for Form FM included in the Firm and Engagement Metrics proposal, for example?

No, firms are exceptionally busy through the middle of May each calendar year. Adding more administrative burden into the audit cycle would likely not enhance audit quality.

22. Are the proposed requirements for audit firm governance information clear and appropriate? Will they elicit useful information for investors, audit committees, and other stakeholders? Should we consider additional requirements?

We are concerned about the text in this section of the proposal, particularly the proposed verbiage to amend Form 2 to create a new Item 1.4, which includes, among other items, “a description of the legal structure, ownership, and governance of the firm, including processes that would govern a change in the form of the organization (e.g., what are the relevant governing bodies, voting rights and approval requirements relevant to such an organizational change.)” These items would be in a partnership agreement, which is not public information. We question why public disclosure of that information is necessary. It is unclear what an investor, audit committee or other stakeholder would do with more detailed information about the governance process for changes in form of organization of a firm or how such information would be relevant to evaluating audit quality.

28. Is the enhanced network information appropriate and will the network related requests elicit useful information for investors, audit committees, and others?

As each network is likely to have many differences in terms of structure and operations, there is unlikely to be consistency across networks and, as such, it is unlikely to be helpful to investors, audit committees and other stakeholders. We believe that the proposed amendments to Form 2, Item 5.2 are likely to create confusion to investors, audit committees and other stakeholders and may result in inaccurate or inappropriate conclusions.

29. Should we consider further limiting the types of networks that are subject to the proposed enhanced requirements or, for example, consider tiered requirements under which smaller firms would be required to disclose a reduced set of items?

Due to the matters noted in our response to Question 28, we do not agree with the enhanced requirements to Form 2.

30. Should we consider requesting network membership agreements as part of the requirements for network information? If so, should they be confidentially or publicly reported to the PCAOB?

We do not believe providing network membership agreements should be required. Between the requirements in the PCAOB's extant quality control standards, the recently released new quality control standard and the requirements in the auditing standards related to the use of the work of other auditors, the requirement for the registered firm to take responsibility for its provision of audit services is clear. We do not believe the proposal demonstrates the value of providing network membership agreements to the PCAOB or publicly.

Notwithstanding the above, where the PCAOB includes this request as part of the enhanced reporting requirements for registered firms, we believe the network membership agreements should be kept confidential. These agreements contain confidential and network sensitive information. Public disclosure could potentially undermine competition. In addition, any benefit of sharing this sensitive information with investors, audit committees and other stakeholders is likely to be limited.

32. Is 14 days sufficient time for smaller firms or non-U.S. firms to comply with the proposed reporting requirement?

No, we believe the PCAOB should retain the current 30-day reporting obligation under Form 3.

33. Currently, for special reporting, the firm is deemed to have become aware of the relevant facts on the date that any partner, shareholder, principal, owner, or member of the Firm first becomes aware of the facts, triggering the reporting obligation. Is this a reasonable trigger for the beginning of the special reporting timeframe? Should the trigger for material event reporting be different, i.e., the date on which the firm determines the event to be material?

It is untenable for the standard to be the date "any partner... first becomes aware of the facts." Firm leadership would likely not know or be expected to know what any one partner or employee of the firm knows at any date. We believe the beginning of the special reporting timeframe should be aligned with the knowledge of relevant facts by firm leadership.

35. Is the use of the term “material” appropriate? Is the guidance on this topic clarifying? Should we limit the event reporting using a different threshold (e.g., significant)?

We recommend that the events that require disclosure need to be better defined, rather than leaving it to the discretion of each firm to determine what is material in nature.

38. Should cybersecurity incident reporting be completely confidential or should there be some degree of public reporting?

Cybersecurity incident reporting should be completely confidential.

46. Would this update be useful to investors, audit committees, and other stakeholders?

We believe this update could be beneficial. There would be transparency on how firms have developed a system of quality management to provide reasonable assurance that audits are performed in accordance with professional and regulatory requirements.

47. Should we require updated statements? For example, should we require an update for material changes to quality control policies and procedures?

We ask for additional clarity on how “material” is defined. If left to the firms to decide, then diversity in practice and inconsistencies about when firm updates to Form 1 would occur, which could create legal or regulatory challenges for firms and confusion for investors and other stakeholders.

48. Would any other procedural approach (e.g., in conjunction with any other PCAOB form) be more efficient for firms or more helpful for public access to information?

Our concern is the lack of confidentiality consideration in Form QCPP and whether that information is intended to be made public. QC 1000 has made Rule 2203A not public because of legal constraints with SOX [102(e) of Sarbanes-Oxley, 15 U.S.C. § 7212(e), Section 105(b)(5)(A)] and potential inconsistencies with PCAOB Rule 4009. The proposal does not state whether 2203B, and therefore Form QCPP, would be publicly available or not.

Form 1 instructions have confidentiality considerations (instruction #6) and an exhibit (99.1) to request information not be made public. These instructions, or option for confidentiality request, are missing from Form QCPP.

66. Have we appropriately described the alternatives considered? If not, how can we improve the analysis?

In terms of alternative approaches, the analysis should also consider the comparability of the information and different interpretations of the information that may be misleading to investors or other stakeholders.

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We would be pleased to respond to any questions the PCAOB or its staff may have about our comments. Please direct any questions to Jamie Klenieski, Audit Quality and Risk Leader, at 215.648.3014, or Sara Lord, Chief Auditor, at 612.376.9572.

Sincerely,

*RSM US LLP*

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