



CENTER FOR CAPITAL MARKETS  
COMPETITIVENESS

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April 25, 2019

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

**Re: Public Company Accounting Oversight Board Proposed Rules on *Auditing Accounting Estimates, Including Fair Value Measurements, and Amendments to PCAOB Auditing Standards (Release No. 34-85434; File No. PCAOB-2019-02)* and on *Amendments to Auditing Standards for Auditor's Use of the Work of Specialists (Release No. 34-85435; File No. PCAOB-2019-03)***

Dear Secretary Countryman:

The U. S. Chamber of Commerce (the “Chamber”) created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21<sup>st</sup> century economy.<sup>1</sup> The CCMC believes that businesses must have a strong system of internal controls and recognizes the vital role external audits play in capital formation.

The CCMC supports efforts to improve audit effectiveness and appreciates the opportunity to provide comments to the Securities and Exchange Commission (“SEC” or “Commission”) on the two Proposed Rules adopted by the Public Company Accounting Oversight Board (“PCAOB” or the “Board”), *Auditing Accounting Estimates, Including Fair Value Measurements* and *Amendments to Auditing Standards for Auditor's Use of the Work of Specialists* (the “Proposed Rules”).

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<sup>1</sup> The Chamber is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information.

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The CCMC understands the importance of these updates to PCAOB Auditing Standards for audit effectiveness. Because they are inter-related, we are also pleased that the PCAOB adopted the two Proposed Rules together. Our comments focus on the effective date for the Proposed Rules and the need for monitoring their implementation, including through formal post-implementation reviews.

The PCAOB proposed that, subject to SEC approval, the new standards and amendments will take effect for audits for fiscal years ending on or after December 15, 2020. However, the CCMC notes that 2020 is a particularly busy period for implementing new accounting and auditing standards. For example, the Financial Accounting Standards Board (“FASB”) Accounting Standards Update on current expected credit losses (“CECL”) is set to take effect for certain institutions beginning in January 2020.<sup>2</sup> In turn, both of the Proposed Rules would affect the auditing of current expected credit losses.<sup>3</sup> Further, the PCAOB’s Auditing Standard for communicating new critical audit matters (“CAMs”) is effective for audits of companies (other than large accelerated filers), to which the requirements apply, for fiscal years ending on or after December 15, 2020.

Because of these complexities, the CCMC recommends that the SEC consider a phased implementation of the Proposed Rules. For example, the SEC could allow triennially inspected audit firms to elect an effective date of audits for fiscal years ending on or after December 15, 2021 (while permitting earlier implementation). Since smaller audit firms in particular may be disproportionately impacted, a phased implementation may help mitigate the burdens on smaller audit firms of implementing the Proposed Rules.<sup>4</sup>

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<sup>2</sup> See FASB Accounting Standards Update No. 2016-13 (June 2016), *Financial Instruments – Credit Losses (Topic 316): Measurement of Credit Losses on Financial Statements* (“CECL”).

<sup>3</sup> The effective date of CECL for certain institutions would result in transition adjustments in the first quarter of 2020 that given their significant/unusual nature would be a focus for auditors to avoid surprises at year-end. Thus, auditors would likely feel compelled to consider the Proposed Rules as much as practical early on in 2020, rather than at year-end as implied by an effective date of audits for fiscal years ending on or after December 15, 2020.

<sup>4</sup> We appreciate that phased implementation of the new auditor disclosure requirements for CAMs (AS 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*) is based on issuer size (i.e., large accelerated filers versus other companies), which is another possible approach. However, because the Proposed Rules are auditor performance standards rather than disclosure requirements, we have suggested phased implementation based on audit firm size to avoid any challenges for audit firms and others that could undermine the benefits of a phased approach.

A phased implementation may also facilitate post-implementation reviews of the Proposed Rules. In 2018, after concluding the first-post-implementation review of a PCAOB auditing standard, the PCAOB staff recommended using phased implementations for auditing standards. The staff stated:

*Some of the challenges we faced in isolating and quantifying incremental effects stem from the way AS 1220 was implemented (effective at a single point in time for all registered firms). Where appropriate, alternative implementation schemes could be considered for new or amended rules and standards, including phased implementation schedules, which can assist in measuring impact.<sup>5</sup>*

The CCMC appreciates that the PCAOB has committed to monitoring implementation of the two Proposed Rules. For example, in discussing the unintended consequences of replacing three existing standards with one on auditing accounting estimates, including fair values, the PCAOB states that it “will monitor implementation to determine whether additional interpretive guidance is necessary.”<sup>6</sup> Such guidance may also be important in order to avoid “de facto” standard-setting through inspections.

The CCMC strongly supports the importance of monitoring implementation generally, which extends to conducting formal post-implementation reviews. As to the latter, the PCAOB recognizes that “it is important to consider early on the data that would be required to evaluate the overall effect of a rule or standard” through formal post-implementation reviews.<sup>7</sup> In this regard, we are somewhat concerned as to whether the Economic Considerations sections of the Proposed Rules provide the requisite ex-ante economic analyses to frame and otherwise assist in formal post-implementation reviews of them.

Monitoring implementation of the Proposed Rules would also interact with the PCAOB’s other activities. For example, advances in technology, including the use of data analysis tools and emerging technologies, are having major impacts on both companies and auditors. The Board believes that the Proposed Rules are “sufficiently principles-based and flexible to accommodate continued advances in the use of data

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<sup>5</sup> See PCAOB *Staff White Paper on Post-Implementation Review of AS 1220, Engagement Quality Review* (“Staff White Paper”) (December 19, 2018, page 13).

<sup>6</sup> See *Auditing Accounting Estimates, Including Fair Value Measurements* (PCAOB Release No. 2016-005, December 20, 2016, page 46).

<sup>7</sup> See the Staff White Paper (page 13).

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and technology by both companies and auditors.” Nonetheless, the Board has committed to continue “to monitor advances in this area and any effect they may have on the application of the new standard.”<sup>8</sup> The CCMC strongly supports this commitment.

Finally, because of the importance of monitoring implementation of the Proposed Rules and the complexities involved in doing so, the CCMC recommends that, as part of its oversight of its PCAOB, the SEC request that the PCAOB periodically update the Commission on the PCAOB’s activities for monitoring the implementation of the Proposed Rules, and the PCAOB’s findings and responses to these activities. These updates would include the PCAOB’s plans for and execution of post-implementation reviews.

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Thank you for your consideration of the CCMC’s recommendations and we stand ready to discuss them with you further.

Sincerely,

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

Tom Quaadman

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<sup>8</sup> See *Auditing Accounting Estimates, Including Fair Value Measurement* (PCAOB Release No. 2016-005, December 20, 2016, page 3).