Via E-Mail

September 6, 2018

Office of the Secretary
PCAOB
1166 K Street NW
Washington, DC 20006-2803

Re: No. 2018-001, PCAOB Draft Strategic Plan 2018-2022

Dear Madam Secretary:

I am writing in response to the Public Company Accounting Oversight Board (PCAOB) Draft Strategic Plan 2018-2022 (Plan).[1] We appreciate the opportunity to comment on the Plan.

The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management exceeding $3.5 trillion.

Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families. Our associate members include a range of asset managers with more than $25 trillion in assets under management.[2]

We strongly endorse the Plan's mission, vision, and values.[3] We believe the mission, vision, and values are generally consistent with our membership approved policies.[4] Those policies that are perhaps most relevant to the PCAOB and Plan include the following:

CII Policies

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[1] PCAOB Draft Strategic Plan 2018-2022 (Aug. 10, 2018), https://pcaobus.org/About/Administration/Documents/Strategic%20Plans/Draft-2018-2022.pdf.
[2] For more information about the Council of Institutional Investors ("CII"), including its board and members, please visit CII's website at http://www.cii.org.
[3] PCAOB Draft Strategic Plan 2018-2022 at 4; *see generally* Brief of Council of Institutional Investors et al. at 7-13, Free Enterprise Fund v. PCAOB, 571 U.S. 477 (2010) (No. 08-861) (Setting forth arguments why the "Investing Public Needs the PCAOB to Protect Its Interests"), https://www.americanbar.org/content/dam/aba/publishing/preview/publiced_preview_briefs_pdfs_09_10_08_861_RespondentAmCu12InvestmentGrps.authcheckdam.pdf.
[4] Council of Institutional Investors, CII Policies, https://www.cii.org/policies.

CII membership approved policies relevant to the PCAOB or Plan include our policies on Financial Gatekeepers,[5] Independence of Accounting and Auditing Standard Setters,[6] and Auditor Independence.[7]

Financial Gatekeepers

Adopted in April 2000, our policy on financial gatekeepers identifies audit firms as “financial gatekeepers” and encourages the regulators of those firms to remain “vigilant” in their oversight.[8] That policy states in relevant part:

> The Council of Institutional Investors believes financial gatekeepers should be transparent in their methodology and avoid or tightly manage conflicts of interest. Robust oversight and genuine accountability to investors are also imperative. Regulators should remain vigilant and work to close gaps in oversight. Continued reforms are needed to ensure that the pillars of transparency, independence, oversight and accountability are solidly in place.
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> Auditors . . . , and other financial “gatekeepers” play a vital role in ensuring the integrity and stability of the capital markets. They provide investors with timely, critical information they need, but often cannot verify, to make informed investment decisions. With vast access to management and material non-public information, financial gatekeepers have an inordinate impact on public confidence in the markets. They also exert great influence over the ability of corporations to raise capital and the investment options of many institutional investors.
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> In recent years, the global financial crisis and financial scandals on Wall Street and at operating companies from Enron to Tyco have cast a harsh light on flawed structures and practices of gatekeepers. In many cases, poor disclosure, conflicts of interest, minimal oversight and lack of accountability helped mislead many market participants into making investment decisions that ultimately yielded huge losses. The crisis of confidence in the markets that followed spurred regulators and lawmakers to scrutinize and rein in gatekeepers.
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> The Sarbanes-Oxley Act of 2002 . . . bolstered the transparency, independence, oversight and accountability of accounting firms . . . . For example, accounting firms now are barred from providing many consulting services to companies whose books they audit. . . .

[5] Council of Institutional Investors, Policies on Other Issues, Financial Gatekeepers (adopted Apr. 3, 2010), https://www.cii.org/policies_other_issues#fin_gatekeepers.
[6] Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (updated Mar. 1, 2017), https://www.cii.org/policies_other_issues#indep_acct_audit_standards.
[7] Council of Institutional Investors, Corporate Governance Policies, § 2.13 Auditor Independence (updated Sept. 15, 2017), https://www.cii.org/files/policies/09_15_17_corp_gov_policies.pdf.
[8] Council of Institutional Investors, Policies on Other Issues, Financial Gatekeepers.

> CII welcomes further examination of financial gatekeepers by regulators, lawmakers, academics and others, to determine what changes, including new rules and stronger oversight, are needed.[9]

Independence of Accounting and Auditing Standard Setters

Our long-standing policy on independence of accounting and auditing standard setters was updated in 2017, in part, to clarify the attributes of an effective accounting *or* auditing standard setter.[10] That policy states in relevant part:

> Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. The efficiency of global markets—and the well-being of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures. The quality, comparability and reliability of that information, in turn, depends directly on the quality of the . . . standards that . . . auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions. The result should be timely, transparent and understandable financial reports.
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> The Council of Institutional Investors has consistently supported the view that the responsibility to promulgate . . . auditing standards should reside with independent organizations.
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> . . . .
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> In order to be high quality, . . . auditing standards must be seen as meeting the needs of the investing public, and the standard setting process must be independent and free from undue influence. Attributes that underpin an effective . . . auditing standard setter include:
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> - **Recognition of the Role of Reporting** – A recognition that . . . the quality of auditing . . . is a public good, necessary to investor confidence in individual enterprises and the global capital markets as a whole; . . .
> - **Accountability to Investors** – A clear recognition that investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs (this includes having significant, prominent and adequately balanced representation from qualified investors on the standard setter's staff, standard-setting board, oversight board and outside monitoring or advisory groups);

[9] *Id.*
[10] Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters.

- **Due Process** – A thorough public due process that includes solicitation of investor input on proposals and careful consideration of investor views before issuing proposals or final standards; . . .
- **Enforcement** – A clear, rigorous and consistent mechanism for enforcement by regulators of the . . . auditing standards.[11]

Auditor Independence

Our long-standing policy on auditor independence was updated in 2013, in part, because of investor concerns about the audit committee's role in overseeing the external audit, including the decision to rotate the external auditor.[12] The policy states in part:

> **2.13a Audit Committee Responsibilities Regarding Independent Auditors**: The audit committee should fully exercise its authority to hire, compensate, oversee and, if necessary, terminate the company's independent auditor. In doing so, the committee should take proactive steps to promote auditor independence and audit quality. Even in the absence of egregious reasons, the committee should consider the appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to: . . .
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> - the quality and frequency of communication from the auditor to the audit committee
> - the experience, expertise and professional skepticism of the audit partner, manager and senior personnel assigned to the audit, and the extent of their involvement in performing the audit . . .
> - the clarity, utility and insights provided in the auditor's report and the auditor's letter to management in relation to the audit
> - the level of transparency and robustness of the audit firm with the audit committee and investors, including with respect to audit quality indicators, governance practices and underlying principles, and the financial stability of the audit firm
> - inspection results and fines levied by the Public Company Accounting Oversight Board or other regulators
> - the track record of the lead partners and the extent of their professional commitments, as provided upon request or observable through disclosure or signature of the lead partner on the auditor's report . . .
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> Investors are the "customers" and end users of financial statements and disclosures in the public capital markets. Both the audit committee and the auditor should recognize this principle.[13]
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> . . . .

[11] *Id.*
[12] Council of Institutional Investors, Corporate Governance Policies, § 2.13 Auditor Independence.
[13] *Id.* § 2.13a Audit Committee Responsibilities Regarding Independent Auditors.

> **2.13f Shareowner Votes on the Board's Choice of Outside Auditor:** Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor. Such provisions should state that if the board's selection fails to achieve the support of a majority of the for-and-against votes cast, the audit committee should: (1) take the shareowners' views into consideration and reconsider its choice of auditor and (2) solicit the views of major shareowners to determine why broad levels of shareowner support were not achieved.[14]

In light of these and other membership approved policies and related CII public positions, we offer the following specific comments on select strategic goals and objectives of the Plan:

GOAL ONE: Drive improvement in the quality of audit services through a combination of prevention, detection, deterrence, and remediation.[15]

<u>OBJECTIVE ONE: Conduct inspection activities to facilitate more timely and relevant feedback to our stakeholders</u>.[16]

CII strongly supports the objective of providing more "timely and relevant feedback"[17] to stakeholders about PCAOB inspections. We believe that some of the issuer criticisms of the inspections are, in part, the consequence of audit firm communications to the issuer that may not always objectively describe or explain the inspection activities or results. More timely and relevant feedback from the PCAOB directly to stakeholders, including public company boards and investors, may assist in a better understanding of the benefits of the inspections, including how the inspection activities and results might facilitate improvements to the quality of financial reporting.

<u>OBJECTIVE THREE: Enforce accountability and deter improper conduct by addressing violations of PCAOB standards and rules, and related federal securities laws</u>.[18]

CII strongly supports the objective of "enforce[ing] accountability and deter[ing] improper conduct by addressing violations of PCAOB standards and rules, and related federal securities laws."[19] We agree that "when registered firms and their associated persons engage in improper conduct, [the PCAOB should] . . . take prompt action to hold them accountable."[20]

In view of this objective, we are concerned that the PCAOB has identified more than 130 issuers that are audit clients of PCAOB-registered firms located in China where the PCAOB is denied

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[14] *Id.* § 2.13f Shareowner Votes on the Board's Choice of Outside Auditor.
[15] PCAOB Draft Strategic Plan 2018-2022 at 7.
[16] *Id.*
[17] *Id.*
[18] *Id.* at 8.
[19] *Id.*
[20] *Id.*

access to conduct inspections in violation of the Sarbanes-Oxley Act of 2002.[21] We are particularly concerned about PCAOB-registered firms located in China for at least four reasons: (1) since 2010 the PCAOB has actively sought without success inspections of China-based audit firms and the mainland affiliates of the Big Four accountancies - Deloitte, KPMG, PricewaterhouseCoopers and EY;[22] (2) many of the China-based audit firms do significant work on audits of major U.S. companies doing business in China;[23] (3) the recent surge in the number of Chinese companies listed on U.S. stock exchanges;[24] and (4) most of the Chinese companies listed on U.S. stock exchanges in recent years have a variable interest entity structure that is highly complex and might include risks that some investors and auditors may not fully understand or appreciate.[25]

In pursuing this objective, we respectfully request that the PCAOB consider examining whether some or all of the PCAOB-registered firms located in China (and perhaps other jurisdictions) should be deregistered because they are not subject to inspections in violation of the U.S. federal securities laws.

<u>OBJECTIVE FOUR: Determine, develop, and communicate indicators of audit quality</u>.[26]

CII strongly supports the objective to "determine, develop, and communicate indicators of audit quality."[27] As we indicated in 2015 in response to the PCAOB's concept release on audit quality indicators (AQI's):

> Generally consistent with our policies,[[28]] CII strongly supports the Board's efforts to implement the recommendation of the Department of the Treasury's Advisory

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[21] Public Company Accounting Oversight Board, Issuers that are Audit Clients of PCAOB-Registered Firms from Non-U.S. Jurisdictions where the PCAOB is Denied Access to Conduct Inspections (updated Nov. 2017), https://pcaobus.org/International/Inspections/pages/issuerclientswithoutaccess.aspx.

[22] *See, e.g.*, Timeline: U.S., HK regulators struggle to get China audit papers, Reuters, Dec. 20, 2017, https://www.reuters.com/article/china-audit-timeline/timeline-u-s-hk-regulators-struggle-to-get-china-audit-papers-idUSKBN1EE0HT.

[23] Michael Rapoport, The Chinese Blind Spot in U.S. Companies' Financials, Wall St. J., July 21, 2018 ("Big Four accounting firms use their Chinese and Hong Kong affiliates to do significant work on the yearly audits of dozen of U.S. companies doing business in China, including Walmart, Pfizer, and 3M.").

[24] Per data compiled by CII staff, there were 9 new listings of Chinese companies on U.S. exchanges in 2016, 21 in 2017, and 20 to-date in 2018 with 17 additional filings in the pipeline (last updated Sept. 4, 2018) (on file with CII).

[25] *See* Theresa Poletti, Opinion: The current tech bubble is a Chinese import, MarketWatch, Sept. 6, 2018 (discussing risks of "raft of tech IPOs . . . from China"), https://www.marketwatch.com/story/the-current-tech-bubble-is-a-chinese-import-2018-09-06; *see generally* Council of Institutional Investors, Buyer Beware: Chinese Companies and the VIE Structure (Dec. 2017) (describing the frequency and risks of Chinese companies with variable interest entity structures), https://www.cii.org/files/publications/misc/12_07_17%20Chinese%20Companies%20and%20the%20VIE%20Structure.pdf.

[26] PCAOB Draft Strategic Plan 2018-2022 at 8.

[27] *Id.*

[28] Council of Institutional Investors, Policies on Corporate Governance, § 2.13a Audit Committee Responsibilities Regarding Independent Auditors ("Even in the absence of egregious reasons, the committee should consider the appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to '. . . the level of transparency and robustness of the audit firm with the audit committee and investors, including with respect to audit quality indicators . . . .").

> Committee on the Auditing Profession (ACAP) to develop "key indicators of audit quality and effectiveness and requiring auditing firms to publicly disclose those . . . [AQI's]." We believe that in order to cast an informed vote on auditor selection and effectively engage the board if needed, long-term investors require information surrounding factors materially affecting audit quality.[29]

We note that our views on requiring audit firms to publicly disclose AQI's is generally consistent with the views of the PCAOB's Investor Advisory Working Group (IAWG).[30] The IAWG's 2016 "Progress and Update Report on Advisory Committee on Accounting Profession's Recommendations" included the following implementation priority for the PCAOB:

> **Audit Quality Indicators:** The Working Group members believe that the PCAOB and SEC should develop and finalize a standard that establishes indicators of audit quality for both the audit of a public company as well as internal controls, processes and procedures on a global, firm wide basis. Audit Quality Indicators (AQIs) should be set for (1) the international firm, (2) its affiliates who perform public company audits and (3) for the performance of individual audit engagements. The indicators for a specific public company audit should be disclosed not only to audit committees who oversee the performance of the audit, but also to investors who ratify the appointment of the external auditor in the annual general meeting. Currently, almost no information is provided to investors to help them make an informed decision whether an auditor has performed high quality audit and should be reappointed, or has failed to do so and should be terminated. Disclosure of audit quality indicators to investors would allow them to make informed decisions when voting on the auditor. Along with the disclosure of the name of the audit partner responsible for an audit, AQIs will give investors useful information with respect to partners and their audit firms who do quality work, as well as those who do not. In this respect, information necessary for an investor to make an informed decision is also necessary if the capital markets are to appropriately reward those who achieve high levels of performance.[31]

It is now more than nine years since the ACAP issued their recommendation on AQI's and the PCAOB has yet to issue a proposed standard to implement the recommendation or explain why the recommendation should not be implemented.[32]

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[29] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Phoebe W. Brown, Office of the Secretary, Public Company Accounting Oversight Board 2 (Sept. 17, 2015) (footnotes omitted), https://www.cii.org/files/issues_and_advocacy/correspondence/2015/09_17_15_PCAOB_letter.pdf.

[30] The Public Company Accounting Oversight Board's, Investor Advisory Working Group, Progress and Update Report, on Advisory Committee on Accounting Profession's Recommendations 10-11 (Oct. 27, 2016), https://pcaobus.org/News/Events/Documents/102716-IAG-meeting/ACAP-WG-report.pdf.

[31] *Id.*

[32] Public Company Accounting Oversight Board, Standard-Setting Update, Office of the Chief Auditor 5 (June 30, 2018) (referencing audit quality indicators only in connection with a "Research Project" addressing the firms' "quality control systems"), https://pcaobus.org/Standards/Documents/Q2_2018_Standard-Setting_Update.pdf.

In June, CII respectfully requested that the Securities and Exchange Commission (SEC) "require . . . the larger U.S. auditing firms [to] [p]roduce public annual reports incorporating . . . [d]isclosure of key indicators of audit quality and effectiveness."[33] Whether or not the SEC adopts our recommendation, we continue to support the PCAOB pursuing a proposed AQI requirement along the lines recommended by the IAWG.

We believe the combination of an SEC requirement that the larger audit firms produce public annual reports incorporating key indicators of audit quality and effectiveness, and a PCAOB requirement, in one form or another, establishing what indicators of audit quality shall be disclosed in those reports,[34] would assist the PCAOB in achieving this objective.

GOAL TWO: Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities.[35]

<u>OBJECTIVE ONE: Assess and address the impact of emerging technologies and the quality of audit services.</u>[36]

CII strongly supports the objective of assessing and addressing the impact of emerging technologies on the quality of audit services. As part of this objective, we agree that the PCAOB should "monitor the development and implementation of emerging technologies to analyze their implementations for the quality of audit services and respond accordingly."[37]

We note that in June the SEC adopted amendments requiring the use of the Inline eXtensible Business Reporting Language (XBRL) format.[38] Inline XBRL in an important development in that it "allows filers to embed XBRL data directly into the document filed on [the Electronic Data Gathering, Analysis, and Retrieval system] EDGAR."[39]

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[33] Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors, to Brent J. Fields, Secretary, Securities and Exchange Commission 9-10 (June 28, 2018), https://www.cii.org/files/June%2028%202018%20letter%20to%20SEC%20(finalJPM).pdf.

[34] *See, e.g.*, Greg Wilson, The Future of Audit Quality: Audit Quality Indicators, Workiva, July 11, 2017 ("The combination of what I believe will be disclosure of AQIs by the PCAOB and individual audit firms will better enable investors and other stakeholders to evaluate the quality of firms providing audit services."), https://www.workiva.com/blog/future-audit-quality-audit-quality-indicators.

[35] PCAOB Draft Strategic Plan 2018-2022 at 9.

[36] *Id.*

[37] *Id.*

[38] Press Release, SEC Adopts Inline XBRL for Tagged Data (June 28, 2018), https://www.sec.gov/news/press-release/2018-117.

[39] Mayer Brown, SEC Adopts Inline XBRL Rule, JDSupra (July 12, 2018), https://www.jdsupra.com/legalnews/sec-adopts-inline-xbrl-rule-83217/; *see* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors, to The Honorable Jeb Hensarling, Chairman, Committee on Financial Services et al. 4 (June 6, 2018) ("We look forward to the SEC's adoption of final rules on its outstanding 'inline XBRL' proposal that is expected to further reduce company costs for XBRL tagging going forward."), https://www.cii.org/files/June%206%202018%20Letter%20to%20Committee%20on%20Financial%20Services.pdf.

This improvement in the functionality of EDGAR makes disclosure documents more valuable for a broad range of users, including market analysts and data vendors.[40] This advancement in XBRL technology, however, also resurrects a long-standing debate of whether machine readable information should continue to remain exempted from assurance and audit.[41]

As indicated by CII's policies, we believe one of the key elements of high quality financial information is the presence of some level of assurance that the data provided by companies to investors is accurate and free of material misstatement.[42]

Investors care about information being accurate, regardless of its format. We believe financials formatted in Inline XBRL should have some level of assurance to increase investor confidence in the quality of information.[43] Without such assurance, Inline XBRL is unlikely to fully deliver on its promises to investors.[44]

In pursuing this objective, we respectfully request that the PCAOB consider examining whether processes and procedures within authoritative literature can be relied upon by the auditing profession to improve, on a cost-effective manner, "the efficiency and effectiveness of financial reporting and the audit process" relating to the adoption of Inline XBRL.[45]

<u>OBJECTIVE TWO: Understand and consider investors' audit expectations</u>[46]

CII strongly supports the objective to "seek to better to understand investors' expectations . . . ."[47] As indicated by CII policies, we believe that investors are the key customer of audited

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[40] *See, e.g.,* Scott W. Bauguess, Deputy Chief Econ. & Deputy Dir., Div. of Econ. & Risk Analysis, SEC, Keynote Address at the FIMA Conference 5 (May 3, 2018) ("structured disclosures enable third-party vendors to make this information available to retail investors at low or even no cost"), https://www.sec.gov/news/speech/speech-bauguess-050318.
[41] *See, e.g.,* Interactive Data to Improve Financial Reporting, Securities Act Release No. 9,002, Exchange Act Release No. 59,324; Trust Indenture Act Release No. 2,461, Investment Company Act Release No. 28,609, at 96 (final rule Jan. 30, 2009) (concluding that "assurance requirement is not now necessary" despite support by for an assurance requirement by California Public Employees' Retirement System, CFA Institute, and CII), https://www.sec.gov/rules/final/2009/33-9002.pdf.
[42] *See* Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters ("The quality, comparability and reliability of that information, in turn, depends directly on the quality of the . . . standards that . . . auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions.").
[43] *See* Letter from Audrey Kuznetsov, Research Analyst, Council of Institutional Investors, to Florence E. Harmon, Acting Secretary, Securities and Exchange Commission 1 (July 31, 2008) (quoting a 2008 CII "SEC Issues Briefing" that '"[w]e believe financial information reported using XBRL will need to be independently verified in some manner in order to provide investors with assurance that companies have tagged their financial data correctly'"), https://www.sec.gov/comments/s7-11-08/s71108-41.pdf.
[44] *Id.* ("While the Council appreciates the SEC's efforts to develop ways to present financial information in a form that would improve its usefulness to investors, we believe that the proposed accuracy and reliability regime for interactive data would first need to be strengthened in order for XBRL to deliver on its promises.").
[45] PCAOB Draft Strategic Plan 2018-2022 at 9.
[46] *Id.*
[47] *Id.*

financial reports[48] and, therefore, it is critical for the PCAOB to "understand and consider investors' audit expectations."[49]

Investors' audit expectations are linked to investors' expectations relating to the PCAOB. As indicated by our policies, for investors that are shareholders, those expectations may include: (1) "ensuring the integrity and stability of the capital markets;"[50] (2) ensuring high quality audited financial statements that "provide investors with timely, critical information they need, but often cannot verify, to make informed investment decisions;"[51] (3) maintaining "investor confidence in individual enterprises and the global capital markets as a whole;"[52] (4) enhancing the "efficiency of global markets;"[53] and (5) providing information related to the audit that may assist in oversight of the audit committee's responsibilities regarding the independent auditor,[54] including proxy voting decisions on the election of directors that may chair or serve on audit committee and the ratification of the Council of Institutional Investors, Corporate Governance Policies outside auditor.[55]

In addition, we note that investors' expectations are influenced by the recognition that shareholders are the owners of, and providers of capital to, public companies. Investors, therefore, ultimately bear the cost of the audit and the funding of the PCAOB.

For all these reasons, this objective is challenging. We, however, are committed to working cooperatively with the PCAOB to assist you in achieving this objective.

GOAL THREE: Enhance transparency and accessibility through proactive stakeholder engagement.[56]

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[48] Council of Institutional Investors, Corporate Governance Policies, § 2.13 Auditor Independence ("Investors are the 'customers' and end users of financial statements and disclosures in the public capital markets. Both the audit committee and the auditor should recognize this principle.").
[49] PCAOB Draft Strategic Plan 2018-2022 at 9.
[50] Council of Institutional Investors, Policies on Other Issues, Financial Gatekeepers.
[51] *Id.; see* Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters ("Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions.").
[52] Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters; *see* Council of Institutional Investors, Policies on Other Issues, Financial Gatekeepers ("financial gatekeepers have an inordinate impact on public confidence in the markets.").
[53] Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters.
[54] *See* Council of Institutional Investors, Corporate Governance Policies § 2.13a Audit Committee Responsibilities Regarding Independent Auditors (for example, information about the "track record of the lead partners . . . as provided . . . through disclosure . . . .).
[55] *See* Council of Institutional Investors, Corporate Governance § 2.13f Shareowner Votes on the Board's Choice of Outside Auditor; *see also* Michael Rapoport, KPMG Gets Cold Should from GE Shareholders, Wall St. J., Apr. 25, 2017 (describing recent shareholder interest in the auditor ratification vote), https://www.wsj.com/articles/kpmg-follows-pwc-in-adding-independent-directors-to-its-board-1524680342.
[56] PCAOB Draft Strategic Plan 2018-2022 at 10.

OBJECTIVE TWO: Cultivate effective and dynamic dialogue with stakeholders.[57]

CII strongly supports the objective to "engage with shareholders to facilitate a more dynamic exchange of views."[58] We also support "reassess[ing] . . . use of advisory groups to ensure that [the PCAOB] are receiving timely, relevant, and useful advice."[59] We, however, would strongly oppose the elimination of either the existing Standing Advisory Group (SAG) or the Investor Advisory Group (IAG).[60]

We understand that the SAG and IAG mirror similar advisory groups that have long-been important sources of valuable advice to the independent, private sector Financial Accounting Standards Board.[61] CII staff and representatives of CII member organizations have served on both the SAG and IAG.[62] It has been our observation and experience that both groups have been generally successful in providing timely, relevant, and useful advice to the PCAOB.

Consistent with CII policies, we believe the proposed reassessment of the SAG should include an evaluation of whether the group has "significant, prominent and adequately balanced representation from qualified investors."[63] The PCAOB's mission "to protect investors"[64] combined with the general underrepresentation of investors on the PCAOB's board and staff, and in connection with the PCAOB's comment letter process, suggests that more, rather than less, input from investors, the "key customer of audited financial reports,"[65] is essential to the PCAOB in fulfilling its mission and this objective.

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[57] *Id.*
[58] *Id.*
[59] *Id.*
[60] *See* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors, to The Honorable Jeb Hensarling, Chairman, Committee on Financial Services, et al. 6-7 (Apr. 29, 2017) (describing basis for opposing proposed legislative provision to "**abolish the investor advisory group**"), https://www.cii.org/files/issues_and_advocacy/correspondence/2017/04_29_17_letter_cmte_fin_serv.pdf.
[61] *See* Financial Accounting Standards Board, Financial Accounting Standards Board Advisory Council ("The FASAC . . . , was formed in 1973 concurrent with the establishment of the Financial Accounting Standards Board."), https://www.fasb.org/fasac/index.shtml (last visited Sept. 6, 2018); Financial Accounting Standards Board, Investor Advisory Committee ("The Financial Accounting Standards Board established the Investor Advisory Committee . . . in 2007") https://www.fasb.org/investors_technical_advisory_committee/index.shtml (last visited Sept. 6, 2018).
[62] *See* Public Company Accounting Oversight Board, News Release, PCAOB Announces Standing Advisory Group Members (Dec. 3, 2013) (announcing members of the Standing Advisory Group, including CII's General Counsel and representatives from CII General Members Pfizer, Inc., AFL-CIO and Colorado Public Employees' Retirement Association), https://pcaobus.org/News/Releases/pages/12022013_sag.aspx; Public Company Accounting Oversight Board, News Release, PCAOB Announces Investor Advisory Group Members (Mar. 1, 2013) (announcing members of the Investor Advisory Group, including CII's Executive Director and representatives from CII General Members AFL-CIO and California Public Employees' Retirement System), https://pcaobus.org/News/Releases/Pages/03012013_Release_IAG.aspx.
[63] Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters.
[64] PCAOB Draft Strategic Plan 2018-2022 at 4.
[65] Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters.

Thank you for consideration of our views. If we can answer any questions or provide additional information regarding this letter, please do not hesitate to contact me at 202.822.0800 or jeff@cii.org.

Sincerely,

Jeff Mahoney

Jeffrey P. Mahoney
General Counsel