

Dear Chairman Clayton:

We are writing on behalf of diverse organizations that represent investors, workers and the public interest regarding the PCAOB staff guidance on Rule 3526(b), Communications with Audit Committees Concerning Independence. We share the concerns expressed by AFL-CIO, Americans for Financial Reform, Better Markets, Center for American Progress, and Consumer Federation of America in a November 21, 2019 letter that the staff guidance, if allowed to stand, would seriously erode market integrity and transparency by weakening enforcement of the auditor independence standards. We join them in urging you to require the PCAOB to withdraw this guidance immediately and to affirm that the position adopted by PCAOB in this guidance is inconsistent with SEC policy and federal securities laws.

For markets to work efficiently, investors need to be able to trust that the disclosures they receive from issuers are accurate and reliable. Mandatory audits play a central role in providing that assurance. The auditors are handsomely compensated for performing this gatekeeper function. When investors cannot trust in the independence of the audit, their confidence in the disclosures' accuracy diminishes. Taken to extremes, this threatens to increase the cost of capital and undermine the efficiency of the capital formation process.

The PCAOB staff guidance poses just such a threat. It does so by allowing auditors to continue to serve where they have violated the auditor independence rules, and by hiding those violations from investors. It is not enough for auditors and audit committees, who have an obvious incentive to sweep problems under the rug, to conclude that the auditor's objectivity was not compromised. Securities laws require that auditor independence determinations be based on what a reasonable investor would conclude.

Under the PCAOB's proposed approach, investors won't have any way of determining whether the violation(s) was serious enough to compromise the auditor's objectivity, or whether it was adequately managed. On the contrary, they may receive false assurances that the auditor was independent. They may also be misled by a statement from the auditor that the audit was conducted in accordance with PCAOB standards when that was not the case. This is a major departure from both PCAOB's and SEC's long-standing approach to auditor independence.

We also strongly object to the manner in which this reversal in policy was adopted. This is too important a matter to be dealt with through staff guidance. While the President's recent Executive Order on Promoting the Rule of Law Through Improved Agency Guidance Documents may not officially apply in this instance, this is a gross violation of the spirit of that Executive Order. Not only was this deceptively titled policy change adopted through an opaque process with no opportunity for input from all affected parties, there is reason to believe that industry was granted an opportunity for input that others were denied. Indeed, the policy seems to have been designed to grant audit firms the watered down approach to auditor independence rules that they have long sought.

For these reasons, we urge you to require the PCAOB to withdraw this staff guidance and to ensure that, if changes are adopted, those changes are made through an open rulemaking process conducted in accordance with the Administrative Procedure Act. We also urge you to reaffirm

that the SEC will not permit audit firms to affirm their independence where they have violated independence standards. Nothing short of a sweeping rejection of this staff guidance will be sufficient to begin to restore investor confidence in the reliability of the corporate financial disclosures on which our capital markets depend.

Respectfully submitted,

20/20 Vision

AJF Financial Services

American Federation of State, County and Municipal Employees (AFSCME)

Center for Economic Justice

Consumer Action

Consumer Assistance Council, Inc.

Consumer Federation of California

CtW Investment Group

Domini Impact Investments, LLC

Friends Fiduciary Corporation

Michael Greenberger, Law School Professor, University of Maryland Carey School of Law

Interfaith Center on Corporate Responsibility

Institute for Agriculture and Trade Policy (IATP)

Missionary Oblates/OIP Trust

Montana Organizing Project

Public Citizen

Seventh Generation Interfaith Inc.

U.S. PIRG

Zevin Asset Management, LLC

cc: Commissioner Robert J. Jackson, Jr.
Commissioner Hester M. Peirce
Commissioner Elad L. Roisman
Commissioner Allison Herren Lee