



**ICGN**

International Corporate Governance Network  
*Inspiring good governance & stewardship*

Chairman Jay Clayton  
Securities and Exchange Commission  
Washington, D.C. 20549  
USA

Sent by email: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)  
[chairmanoffice@sec.gov](mailto:chairmanoffice@sec.gov)

18 December 2020

Dear Chairman Clayton:

**Re: Notice of Filing of Proposed Rules on Amendments to PCAOB Interim Independence Standards and PCAOB Rules to Align with Amendments to Rule 2-01 of Regulation S-X**

The International Corporate Governance Network (ICGN) is pleased to provide comments to the United States Securities and Exchange Commission (SEC) regarding Notice of Filing of Proposed Rules on Amendments to PCAOB Interim Independence Standards and PCAOB Rules to Align with Amendments to Rule 2-01 of Regulation S-X, issued by the SEC on 27 November 2020.

Led by investors responsible for assets under management in excess of US\$54 trillion, ICGN is a leading authority on global standards of corporate governance and investor stewardship. Our membership is based in more than 50 countries and includes companies, advisors and other stakeholders. ICGN's mission is to promote high standards of professionalism in governance for investors and companies alike in their mutual pursuit of long-term value creation contributing to sustainable economies world-wide. Our policy positions and engagement are guided by the member-approved ICGN Global Governance Principles<sup>1</sup> and ICGN Global Stewardship Principles,<sup>2</sup> both of which have been developed in consultation with ICGN Members and as part of a wider peer review. For more information on ICGN please see: [www.icgn.org](http://www.icgn.org).

ICGN has engaged with the U.S. SEC over two decades by virtue of our responses to public consultations to help promote good corporate governance and responsible investment practices in the US.<sup>3</sup> Over 30% of ICGN Members are based in North

---

<sup>1</sup> See: ICGN Global Governance Principles (2017):  
[http://icgn.flpbks.com/icgn\\_global\\_governance\\_principles/](http://icgn.flpbks.com/icgn_global_governance_principles/)

<sup>2</sup> See: ICGN Global Stewardship Principles (2020):  
[https://www.icgn.org/sites/default/files/ICGN%20Global%20Stewardship%20Principles%202020\\_0.pdf](https://www.icgn.org/sites/default/files/ICGN%20Global%20Stewardship%20Principles%202020_0.pdf)

<sup>3</sup> For example see:

ICGN letter to the SEC on Nasdaq listing requirements on board diversity (16 December 2020)  
ICGN letter to the SEC on Modernization of Regulation S-K Items 101, 103, and 10, (26 August 2020):  
<https://www.icgn.org/sites/default/files/12.%20ICGN%20Letter%20Req%20S-K%20to%20%20SEC.pdf>

America and many others based overseas hold significant equity and debt positions in US companies.

As a body representing institutional investors as users of financial statements, we place great value on high quality audit standards and practices. Section 7.7 of our Global Governance Principles focuses on Independent external audit and we highlight the critical importance of an independent and objective audit opinion. ICGN and its members recognise the importance of an independent auditor to an effective financial system. As a group, we regularly advocate for greater auditor independence and effective auditor governance.

Accordingly, we support the Public Company Accounting Oversight Board (PCAOB) mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. However, we would like to express concern about the amendments that PCAOB is proposing to change relating to auditor independence rules, which we believe would compromise PCAOB's mission vis-à-vis investor protection and independent audit reports.

We make reference to the arguments and conclusions presented by PCAOB Board Member J. Robert Brown Jr. at the PCAOB Open Board Meeting on 19 November 2020.<sup>4</sup> As Mr. Brown notes, the PCAOB is watering its own authority over auditor independence with limited discussion, analysis or external input. If the stated mission of PCAOB is to protect investors, it is our feedback to you that this is not what institutional investors are looking for. It would take us in the opposite direction of investor protection.

Finally, we would like to comment more generally on the PCAOB's own governance. ICGN has engaged the PCAOB constructively on its quality control standards.<sup>5</sup> However, we are concerned that the voice of investors, as key beneficiaries of a quality audit process, does not come across as a high priority. For example, the

---

ICGN letter to the SEC on proposed amendments to Exchange Act Rule 14a-8 (4 December 2019):

[https://www.icgn.org/sites/default/files/20.%20SEC%20shareholder%20resolution%20\\_0.pdf](https://www.icgn.org/sites/default/files/20.%20SEC%20shareholder%20resolution%20_0.pdf)

ICGN letter to SEC Regarding Proxy Advisor Interpretation and Guidance (21 November 2019):

<https://www.icgn.org/sites/default/files/19.%20SEC%20Proxy%20Advisor%20Interpretation%20and%20Guidance.pdf>

ICGN letter to the SEC on Modernization of Regulation S-K Items 101, 103, and 105; Release Nos. 33-10668; 34-86614 ("Proposed Rule"), (22 October 2019):

<https://www.icgn.org/sites/default/files/16.%20ICGN%20USSEC%20S7-11-19.pdf>

<sup>4</sup> J. Robert Brown, Reducing PCAOB Authority over Auditor Independence (19 November 2020):

<https://pcaobus.org/news-events/speeches/speech-detail/reducing-pcaob-authority-over-auditor-independence>

<sup>5</sup> ICGN comment letter to PCAOB Concept Release for Potential Approach to Revisions to PCAOB Quality Control Standards, 16 March 2020:

<https://www.icgn.org/sites/default/files/3.%20ICGN%20Response%20to%20PCAOB%20on%20Audit%20Quality.pdf>

PCAOB has not had a meeting of either its investor advisory committee nor its standing advisory committee (which has investors on it) for two years. This raises questions about PCAOB's own governance and transparency, and we are hopeful that the Biden Administration will revitalise the PCAOB and enhance its investor focus and engagement. It is in prospect of this new administration we feel that these proposed rules are being rushed through in a process that may be unduly politicised—with investors counting as among the main stakeholders whose interests will suffer. From the perspective of the global institutional investor community this does not present a positive picture of high regulatory quality in the U.S.

We hope these comments are useful to your deliberations and please do not hesitate to contact me or ICGN Policy Director, George Dallas, if you would like to discuss this in further detail: [george.dallas@icgn.org](mailto:george.dallas@icgn.org)

Yours sincerely,



Kerrie Waring  
Chief Executive

Copy: James Andrus, Chair, ICGN Disclosure and Transparency Committee:  
[James.Andrus@calpers.ca.gov](mailto:James.Andrus@calpers.ca.gov)