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BLOG

House Committee Votes to Abolish Public Company Accounting Oversight Board

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On April 30, 2025, the Financial Services Committee of the U.S. House of Representatives voted to advance a draft bill that would abolish the Public Company Accounting Oversight Board (PCAOB). This action is part of a larger initiative by the Trump administration to cut federal spending and curtail regulation. If the bill is passed into law, the Securities and Exchange Commission (SEC) would be responsible for taking over the current responsibilities of the PCAOB.

BACKGROUND

The PCAOB was created pursuant to the Sarbanes-Oxley Act of 2002, following the accounting-related collapses of WorldCom, Inc. and Enron Corporation. The discovery of the companies' fraudulent accounting practices exposed a critical fault in the auditing industry, which spurred the establishment of the PCAOB as a independent watchdog for firms that audit public companies. The Sarbanes-Oxley Act requires auditors to maintain independence from their clients and directs the PCAOB to register audit firms, establish auditing standards, inspect audit firms, and investigate, conduct disciplinary proceedings of, and impose sanctions on auditors and audit firms. These provisions were designed to protect the interests of investors by giving them confidence in the accuracy, completeness, and independence of audit reports.

Currently, the PCAOB has more than 2,300 auditing firms registered and conducts annual inspections of any firm that issues audit reports for more than 100 issuers per yearThe PCAOB also regularly issues auditing standards, risk-assessment standards, and audit practice alerts to provide guidance on current auditing issues. Since its inception, the PCAOB has gained international attention, with more than 40 countries establishing similar oversight bodies, and it has negotiated cooperative agreements in more than 50 jurisdictions around the world to ensure that it has the access necessary to conduct complete inspections and investigations.

POTENTIAL IMPLICATIONS

Dismantling the PCAOB and offloading its responsibilities to the SEC could have significant consequences. For example, none of the cooperative agreements that the PCAOB has negotiated with foreign jurisdictions contain provisions that would allow the SEC to assume the PCAOB's privileges and responsibilities under those agreements. This includes China, where the PCAOB has been successfully inspecting and investigating Chinese firms and holding them accountable through enforcement cases and other actions. There is no guarantee that such agreements can be renegotiated or of how long that process would take. Any lapse in accountability for non-U.S. audit firms could present opportunities for public companies and their auditors to take advantage of the situation at the expense of investors.

The PCAOB has also cultivated decades of experience and expertise in this field, and the time it would take to rebuild those skills within the SEC could expose investors to additional risk at a time when markets are already unpredictable. Public companies and their auditors might fail to maintain existing audit standards during the transition. Overall, eliminating the PCAOB risks reducing investor confidence in financial reporting and may make investing in the market less attractive.

KEY TAKEAWAYS

- **PCAOB Serves Critical Role in Capital Markets**: The PCAOB has played an integral role in public company financial reporting and, by extension, the U.S. capital markets as a whole.
- **Dismantling the PCAOB Could Put Investors at Risk**: If the proposed legislation is enacted and the PCAOB is dismantled, the transition of its current responsibilities to the SEC could give companies and audit firms the opportunity to take advantage of the potential lack of oversight and expose investors to additional risk.

Winston's Capital Markets & Securities Law Watch will continue to monitor developments related to the proposed legislation, and we will provide our readers with additional updates as they become available.

For more information, or if you have any questions, please contact the authors of this blog post or your regular Winston contacts.

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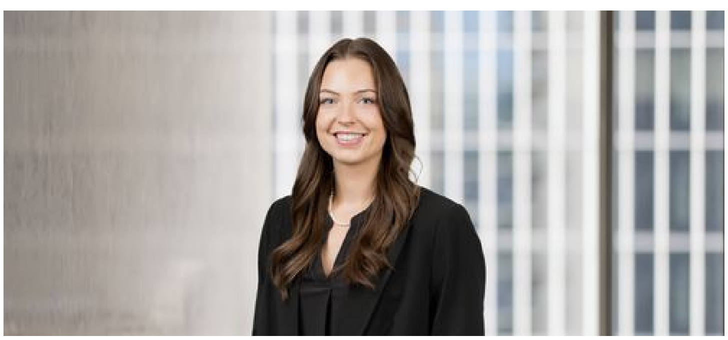

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