

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 86252 / July 1, 2019**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 4057 / July 1, 2019**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-19226**

**In the Matter of**

**THOMAS CHANG, CPA**

**Respondent.**

**ORDER INSTITUTING PUBLIC  
ADMINISTRATIVE AND CEASE-AND-  
DESIST PROCEEDINGS PURSUANT TO  
SECTIONS 4C AND 21C OF THE  
SECURITIES EXCHANGE ACT OF 1934  
AND RULE 102(e) OF THE COMMISSION'S  
RULES OF PRACTICE, MAKING  
FINDINGS, AND IMPOSING REMEDIAL  
SANCTIONS AND A CEASE-AND-DESIST  
ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Thomas Chang (“Respondent” or “Chang”) pursuant to Sections 4C<sup>1</sup> and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.<sup>2</sup>

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<sup>1</sup> Section 4C provides, in relevant part, that:

The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . (1) not to possess the requisite qualifications to represent others . . . (2) to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct; or (3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations thereunder.

<sup>2</sup> Rule 102(e)(1)(ii) provides, in pertinent part, that:

The Commission may censure any person, or deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have engaged in unethical or improper professional conduct.

## II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondent consents to the entry of this Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission’s Rules of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

## III.

On the basis of this Order and Respondent’s Offer, the Commission finds<sup>3</sup> that:

### Summary

1. This matter arises from violations of the auditor independence rules caused by Chang between April 2016 and August 2018. These violations stem from a business relationship between Chang’s auditing firm, KCCW Accountancy Corp. (“KCCW”), and Entity A, a company that created and maintained an inventory of public companies that it made available to its customers. In 2008, KCCW began a business relationship with Entity A whereby it agreed to pay Entity A a percentage of the audit fees it earned from audit clients referred by Entity A.

2. Starting in April 2016, Entity A’s owner and an employee—its marketing director—retained KCCW on multiple occasions, through Chang, to audit public shell companies in their control. From April 2016 to August 2018, KCCW served as the purportedly independent auditor for at least five public companies controlled by the Entity A-related individuals while maintaining a business relationship with them as defined by Rule 2-01(c)(3) of Regulation S-X. As detailed below, Chang caused the firm to issue audit reports stating that the audits were performed in accordance with Public Company Accounting Oversight Board standards, thereby causing KCCW to violate Rule 2-02(b) of Regulation S-X.

### Respondent

3. **Thomas Chang**, age 42, resides in Pasadena, California. During the relevant period, he was a 50% equity partner in KCCW and the engagement partner for the audits of the public shell companies discussed herein. He has been a CPA licensed in California since 2007.

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<sup>3</sup> The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

### **Other Relevant Entities**

4. **KCCW Accountancy Corp.** (“KCCW”), incorporated in California with offices in California and Taiwan, is a Public Company Accounting Oversight Board (“PCAOB”) registered public accounting firm. It has three partners, including Chang. According to its most recent PCAOB annual report, KCCW had approximately 60 public issuer audit clients. KCCW also provided audit and tax services to private companies.

5. **Entity A** was a Delaware corporation with its principal place of business in Beverly Hills, California that assisted companies in going public. Entity A created and maintained an inventory of public shell companies that it made available to its customers. Entity A’s owner and marketing director served as the officers, directors, and fifty percent shareholders of the public shell companies.

### **Facts**

6. As Chang started his practice in 2008, KCCW and Entity A entered into an oral agreement (the “referral agreement”) through which KCCW paid Entity A a referral fee for audit clients that it introduced to KCCW. The referral agreement entitled Entity A to 30% of the total first-year fees KCCW received from any audit client referred by Entity A. KCCW agreed to pay Entity A 20% of fees for the second year and 10% of fees for subsequent years. Pursuant to the referral agreement, from October 2009 through January 2016, KCCW paid Entity A a total of \$70,725 and, from January 2016 through March 2017, accrued another \$25,278 in unpaid referral fees.

7. Prior to April 2016, Entity A introduced KCCW to at least nine audit clients, pursuant to the referral agreement.

8. As part of Entity A’s business, its owner and marketing director maintained control of public shell companies that Entity A made available to its customers. Prior to transferring control of a public shell to an Entity A customer, the owner and marketing director served as the officers, directors, and fifty-percent shareholders of each public shell. At times, certain public shells would remain in their control for more than one year and require an audit in connection with the public shells’ obligations to file with the Commission annual reports on Form 10-K.

9. Starting in April 2016, Entity A’s owner and its marketing director engaged KCCW to conduct year-end audits of the public shells that they controlled. In parallel, KCCW continued to accrue referral fees with respect to companies not controlled by Entity A and maintained its business relationship with Entity A pursuant to the referral agreement. Chang failed to identify the independence concerns raised by this arrangement.

10. KCCW, by and through Chang, signed audit reports for five public companies between April 2016 and August 2018 that Entity A’s owner and marketing director controlled, and for which they were the only officers and directors. The audit reports stated that the audits were

performed in accordance with the standards of the PCAOB. During these audits, and at the time the audit reports were signed, the referral agreement was still in effect and Entity A was accruing referral fees from KCCW.

11. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. Specifically, after being approached by Commission staff during the investigation, Chang discontinued the referral agreement with Entity A.

### **Legal Analysis**

12. Regulation S-X Section 2-01(c)(3) states that an auditor is not independent if, “at any point during the audit and professional engagement period, the accounting firm or any covered person in the firm has any direct or material indirect business relationship with an audit client, or with persons associated with the audit client in a decision-making capacity, such as an audit client’s officers, directors, or substantial stockholders.” KCCW’s referral agreement with Entity A—whose owner and marketing director were the only officers, directors, and shareholders of the public shell companies—rendered KCCW not independent of the five audit clients for the audits described in Paragraph 10.

13. As a result of the conduct described above, Chang caused KCCW to violate Rule 2-02(b) of Regulation S-X, which requires an accountant’s report to “state whether the audit was made in accordance with generally accepted auditing standards” [“GAAS”] which, in turn, require auditors to maintain independence—both in fact and appearance—from their audit clients.<sup>4</sup> Thus, the audit reports signed by KCCW, by and through Chang, for the five public companies from April 2016 to August 2018 incorrectly stated that they were performed in accordance with PCAOB Standards.

14. As a result of the conduct described above, Chang engaged in improper professional conduct under Section 4C of the Exchange Act and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice, which provide, in pertinent part, that the Commission may “censure a person or deny, temporarily or permanently, the privilege of appearing or practicing before it... to any person who is found... to have engaged in... improper professional conduct.” Such conduct can be established by, *inter alia*, negligence in the form of either “a single instance of highly unreasonable conduct ... in circumstances [warranting] heightened scrutiny” or of “repeated instances of unreasonable conduct...” See Rule 102(e)(1)(iv)(B)(1) and (2).

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<sup>4</sup> Securities Act Release No. 33-8422 (May 14, 2004) states that reference to GAAS should be understood to mean the standards of the PCAOB plus any applicable rules of the Commission. PCAOB Rule 3520 states that a “registered public accounting firm and its associated persons must be independent of the firm’s audit client throughout the audit and professional engagement period.” Note 1 to Rule 3520 further clarifies that independence “with respect to an audit client encompasses not only an obligation to satisfy the independence criteria applicable to the engagement set out in the rules and standards of the PCAOB, but also an obligation to satisfy all other independence criteria applicable to the engagement, including the independence criteria set out in the rules and regulations of the Commission under the federal securities laws.”

## **Findings**

15. Based on the foregoing, the Commission finds that Respondent engaged in improper professional conduct pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice, and caused a violation of Rule 2-02(b) of Regulation S-X.

### **IV.**

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 4C and 21C of the Exchange Act, and Rule 102(e)(1)(ii) of the Commission's Rules of Practice, it is hereby ORDERED that:

A. Respondent Chang shall cease and desist from committing or causing any violations and any future violations of Rule 2-02(b) of Regulation S-X.

B. Respondent Chang is denied the privilege of appearing or practicing before the Commission as an accountant.

C. After one (1) year from the date of this order, Respondent Chang may request that the Commission consider his reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission (other than as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Securities Exchange Act of 1934). Such an application must satisfy the Commission that Respondent Chang's work in his practice before the Commission as an accountant will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or
2. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission as a member of an audit committee, as that term is defined in Section 3(a)(58) of the Securities Exchange Act of 1934. Such an application will be considered on a facts and circumstances basis with respect to such membership, and the applicant's burden of demonstrating good cause for reinstatement will be particularly high given the role of the audit committee in financial and accounting matters; and/or

3. an independent accountant.

Such an application must satisfy the Commission that:

- (a) Respondent Chang, or the public accounting firm with which he is associated, is registered with the PCAOB in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;
- (b) Respondent Chang, or the registered public accounting firm with which he is associated, has been inspected by the PCAOB and that inspection did not identify any criticisms of or potential defects in the respondent's or the firm's quality control system that would indicate that Respondent Chang will not receive appropriate supervision;
- (c) Respondent Chang has resolved all disciplinary issues with the PCAOB, and has complied with all terms and conditions of any sanctions imposed by the PCAOB (other than reinstatement by the Commission); and
- (d) Respondent Chang acknowledges his responsibility, as long as he appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the PCAOB, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.

D. The Commission will consider an application by Respondent Chang to resume appearing or practicing before the Commission provided that his state CPA license is current and he has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Respondent Chang's character, integrity professional conduct, or qualifications to appear or practice before the Commission as an accountant. Whether an application demonstrates good cause will be considered on a facts and circumstances basis with due regard for protecting the integrity of the Commission's processes.

E. Respondent Chang shall, within 10 days of the entry of this Order, pay disgorgement of \$13,000, representing audit fees earned from Entity A-controlled public shells, prejudgment interest of \$1,590.45, and a civil money penalty in the amount of \$13,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 and 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Respondent Chang as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Antonia Chion, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

G. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, he shall not argue that he is entitled to, nor shall he benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that he shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

## V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the findings in this Order are true and admitted by Respondent, and further, any debt for disgorgement, prejudgment interest, civil

penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

By the Commission.

Vanessa A. Countryman  
Secretary