

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71524; File No. PCAOB-2013-01)

February 12, 2014

Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules, Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards

I. Introduction

On October 30, 2013, the Public Company Accounting Oversight Board (the “Board” or the “PCAOB”) filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 107(b)¹ of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) and Section 19(b)² of the Securities Exchange Act of 1934 (the “Exchange Act”), proposed rules to adopt standards for attestation engagements related to broker and dealer compliance or exemption reports required by the U.S. Securities and Exchange Commission and related amendments to PCAOB standards (collectively, the “Proposed Rules”). The Proposed Rules were published for comment in the Federal Register on November 15, 2013.³ At the time the notice was issued, the Commission designated a longer period to act on the Proposed Rules, until February 13, 2014.⁴ The Commission received two comment letters in response to the notice.⁵ This order approves the Proposed Rules.

¹ 15 U.S.C. 7217(b).

² 15 U.S.C. 78s(b).

³ See Release No. 34-70842 (November 8, 2013), 78 FR 68911 (November 15, 2013).

⁴ Ibid.

II. Description of the Proposed Rules

Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, establishes requirements for the auditor with respect to the auditor's examination regarding a broker's or dealer's compliance report and establishes requirements that are designed specifically for the examination required by Exchange Act Rule 17a-5 (“Rule 17a-5”).⁶ Consistent with Rule 17a-5, Attestation Standard No. 1 requires auditors to obtain sufficient appropriate evidence to opine on a broker's or dealer's statements in its compliance report as to whether:

- The Internal Control Over Compliance of the broker or dealer was effective during the most recent fiscal year;
- The Internal Control Over Compliance of the broker or dealer was effective as of the end of the most recent fiscal year;
- The broker or dealer was in compliance with Exchange Act Rule 15c3-1⁷ (the “net capital rule”) and Exchange Act Rule 15c3-3(e)⁸ (the “reserve requirements rule”) as of the end of the most recent fiscal year; and
- The information the broker or dealer used to state whether it was in compliance with the net capital rule and reserve requirements rule was derived from the books and records of the broker or dealer.⁹

⁵ See letters to the Commission from Deloitte & Touche LLP, dated December 5, 2013 (“Deloitte Letter”) and Suzanne H. Shatto, dated December 17, 2013 (“Shatto Letter”).

⁶ 17 CFR 240.17a-5.

⁷ 17 CFR 240.15c3-1.

⁸ 17 CFR 240.15c3-3(e).

Attestation Standard No. 1 provides requirements for auditors that:

- Focus the auditor on the matters that are most important to the auditor's conclusions regarding the broker's or dealer's assertions;
- Incorporate consideration of fraud risks, including the risk of misappropriation of customer assets;
- Are designed to be scalable based on the broker's or dealer's size and complexity;
- Coordinate the examination engagement with the audit of the financial statements and the audit procedures performed on supplemental information; and
- Describe how to report on an examination engagement in connection with the requirements of Rule 17a-5.

Attestation Standard No. 1 reflects the requirement in Rule 17a-5 that the auditor must obtain reasonable assurance to support the auditor's opinion. In particular, Attestation Standard No. 1 requires the auditor to obtain reasonable assurance in order to opine on whether the broker's or dealer's assertions are fairly stated, in all material respects.

Attestation Standard No. 2 establishes requirements for the auditor with respect to the auditor's review regarding the broker's or dealer's exemption report and establishes requirements that are designed specifically for the review required by Rule 17a-5.¹⁰ Attestation Standard No. 2 establishes requirements for making inquiries and performing other procedures that are commensurate with the auditor's responsibility to obtain moderate assurance regarding whether one or more conditions exist that would cause one or more of the broker's or dealer's assertions

⁹ See paragraphs (d)(3)(i)(A)(2) – (5) of SEC Rule 17a-5.

¹⁰ See 17 CFR 240.17a-5(g)(2)(ii).

not to be fairly stated, in all material respects. The broker's or dealer's exemption report includes the following assertions:

- A statement that identifies the provisions in paragraph (k) of Exchange Act Rule 15c3-3 (the “exemption provisions”) under which the broker or dealer claimed an exemption from Exchange Act Rule 15c3-3 (the “identified exemption provisions”);
- A statement that the broker or dealer (1) met the identified exemption provisions throughout the most recent fiscal year without exception or (2) met the identified exemption provisions throughout the most recent fiscal year except as described in the exemption report; and
- If applicable, a statement that identifies each exception during the most recent fiscal year in meeting the identified exemption provisions (an “exception”) and that briefly describes the nature of each exception and the approximate date(s) on which the exceptions existed.¹¹

The procedures required by Attestation Standard No. 2 include evaluating relevant evidence obtained from the audit of the financial statements and the audit procedures performed on supplemental information and are designed to enable the auditor to scale the review engagement based on the broker's or dealer's size and complexity. Attestation Standard No. 2 also establishes requirements for the content of the review report.

As part of the Proposed Rules, the Board adopted conforming amendments to several PCAOB auditing and attestation standards, including Auditing Standard No. 3, *Audit Documentation*, Auditing Standard No. 7, *Engagement Quality Review*, and interim attestation standards AT sec. 101 and AT sec. 601.

¹¹ See SEC Rule 17a-5(d)(4).

The Proposed Rules would be effective for examination engagements and review engagements for fiscal years ending on or after June 1, 2014.

III. Comment Letters

As noted above, the Commission received two comment letters concerning the Proposed Rules. The commenters expressed support for the Proposed Rules, with one commenter noting that they are consistent with the Commission's amended Rule 17a-5 and are necessary to enable auditors of brokers and dealers to comply with the requirements therein.¹²

IV. Conclusion

The Commission has carefully reviewed and considered the Proposed Rules and the information submitted therewith by the PCAOB, including the comment letters received. In connection with the PCAOB's filing and the Commission's review, the Commission finds that the Proposed Rules are consistent with the requirements of the Sarbanes-Oxley Act and the securities laws and are necessary or appropriate in the public interest or for the protection of investors.¹³

¹² See Deloitte Letter.

¹³ Because these proposed rules apply solely in connection with the obligations of registered brokers and dealers pursuant to 17 CFR 240.17a-5, no separate determination is necessary under 15 U.S.C. § 7213(a)(3)(C).

IT IS THEREFORE ORDERED, pursuant to Section 107 of the Act and Section 19(b)(2) of the Exchange Act, that the Proposed Rules (File No. PCAOB-2013-01) be and hereby are approved.

By the Commission.

Kevin M. O'Neill
Deputy Secretary