

**SECURITIES AND EXCHANGE COMMISSION**  
**(Release No. 34-75935; File No. PCAOB-2015-01)**

September 17, 2015

**Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules to Implement the Reorganization of PCAOB Auditing Standards and Related Changes to PCAOB Rules and Attestation, Quality Control, and Ethics and Independence Standards**

**I. Introduction**

On June 17, 2015, 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)<sup>1</sup> of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) and Section 19(b)<sup>2</sup> of the Securities Exchange Act of 1934 (the “Exchange Act”), proposed rules to adopt amendments to implement the reorganization of PCAOB auditing standards and related changes to PCAOB rules and attestation, quality control, and ethics and independence standards (collectively, the “Proposed Rules” or “Proposed Reorganization”).<sup>3</sup> The Proposed Rules were published for comment in the Federal Register on June 25, 2015.<sup>4</sup> At the time the notice was issued, the Commission designated a longer period to act on the Proposed Rules, until September 23, 2015.<sup>5</sup> The Commission received four comment letters in response to the

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<sup>1</sup> 15 U.S.C. 7217(b).

<sup>2</sup> 15 U.S.C. 78s(b).

<sup>3</sup> The Board originally proposed in March 2013 (“Original Proposal”) what became the Proposed Rules. See PCAOB Release No. 2013-002 (March, 26, 2013). The Board also issued a supplemental request for comment in May 2014 (“Supplemental Request”). See PCAOB Release No. 2014-001 (May 7, 2014).

<sup>4</sup> See Release No. 34-75251 (June 19, 2015), 80 FR 36602 (June 25, 2015).

<sup>5</sup> Ibid.

notice.<sup>6</sup> This order approves the Proposed Rules.

## **II. Description of the Proposed Rules**

In April 2003, the Board adopted, on an interim, transitional basis, generally accepted auditing standards (“GAAS”) that were in existence on April 16, 2003. When the Board adopted those auditing standards, it continued to use the topical organization and reference numbers (“AU sections”) in the Auditing Standards Board (“ASB”) of the American Institute of Certified Public Accountants’ (“AICPA”) then-existing codification of its standards. Auditing standards issued by the Board (“AS standards”) have not been codified or otherwise organized by topic, and are numbered in sequential order based upon when they were issued. As a result, the Board’s auditing standards are organized using two separate numbering systems: (1) the numbering system used by the ASB when the Board adopted the interim standards; and (2) the numbering system used by the Board for the standards it has issued.

### **1. Proposed Reorganization**

Under the Proposed Reorganization, the individual standards will be grouped into the following topical categories:

- General Auditing Standards (AS 1000s)—standards on broad auditing principles, concepts, activities, and communications;
- Audit Procedures (AS 2000s)—standards for planning and performing audit procedures and for obtaining audit evidence;
- Auditor Reporting (AS 3000s)—standards for auditors’ reports;

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<sup>6</sup> See Comment letters from Suzanne H. Shatto, June 27, 2015, Deloitte & Touche LLP, July 8, 2015, Michael McMurtry, July 28, 2015, and Stephen G. Wills, August 17, 2015, available at <http://www.sec.gov/comments/pcaob-2015-01/pcaob201501.shtml>.

- Matters Related to Filings Under Federal Securities Laws (AS 4000s)—standards on certain auditor responsibilities relating to U.S. Securities and Exchange Commission filings for securities offerings and reviews of interim financial information; and
- Other Matters Associated with Audits (AS 6000s)—standards for other work performed in conjunction with an audit of an issuer or of a broker or dealer.

Within each category are subcategories to further organize similar topics, such as standards related to auditor communications in the “General Auditing Standards” category. The integrated reference system uses an “AS” prefix to identify the auditing standard and each standard is assigned a unique section number, based on a four-digit numbering system.

## 2. Changes to PCAOB Standards and Rules

The amendments to PCAOB standards and rules include changes rescinding certain interim auditing standards that the Board believes are no longer necessary, eliminating inoperative language in auditing standards, references, and interpretations, and eliminating inoperative references to AICPA standards or rules.

### a. Changes to the PCAOB Standards

The amendments primarily update section numbers, update cross-references among standards using the numbering system in the adopted reorganization, and change the titles of certain standards. Other amendments rescind certain interim standards and remove or update certain terms and phrases in the standards.

#### *Interim Standards to be Rescinded*

The following interim standards are being rescinded because they contain requirements that have been superseded or duplicated by other PCAOB standards, and as such, are considered

unnecessary:

- AU sec. 150, Generally Accepted Auditing Standards
- AU sec. 201, Nature of the General Standards
- AU sec. 410, Adherence to Generally Accepted Accounting Principles
- AU sec. 532, Restricting the Use of an Auditor's Report
- AU sec. 901, Public Warehouses—Controls and Auditing Procedures for Goods Held.

#### *Interpretive Publications*

Almost all<sup>7</sup> of the AICPA auditing interpretations are being retained and presented separately from the auditing standards. The Proposed Reorganization retains the existing requirement for the auditor to be aware of and consider the applicable auditing interpretations.

The Proposed Reorganization retains the majority<sup>8</sup> of the appendices to the interim auditing standards and to continue presenting those appendices together with their related auditing standards in the same manner that appendices to PCAOB-issued standards are presented. Additionally, the Proposed Reorganization removes references to AICPA Audit and Accounting Guides and AICPA auditing Statements of Position because the guides referenced in PCAOB standards are outdated.<sup>9</sup>

#### *Other Changes to PCAOB Standards*

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<sup>7</sup> The Proposed Reorganization will rescind two auditing interpretations related to AU sec. 410 and AU sec. 534 and interpretation 16 of AU sec. 508 because they are either duplicative or unrelated to the preparation or issuance of any audit report for an issuer, broker, or dealer, and thus unnecessary.

<sup>8</sup> The Proposed Reorganization will delete duplicative and thus unnecessary appendices that contain paragraphs .86 and .87 of AU sec. 316.

<sup>9</sup> AICPA Audit and Accounting Guides and auditing Statements of Position referenced in PCAOB standards are the editions of those publications as in existence on April 16, 2003.

The Proposed Reorganization includes amendments to replace references to GAAS throughout the auditing standards with references to the standards of the PCAOB or PCAOB auditing standards, and accordingly, to supersede Auditing Standard No. 1 (“AS 1”), References in Auditors’ Reports to the Standards of the Public Company Accounting Oversight Board.<sup>10</sup> The Proposed Reorganization also includes amendments to preserve the requirement from AS 1 for the auditor’s report to include the city and state, (or city and country), of the auditor. Finally, as AS 1 applied to the PCAOB’s attestation standards, amendments to update references to PCAOB standards and to include the city and state (or city and country) have been applied to the attestation standards.

As a result of these changes, the amendments also include updates to the illustrative auditor’s reports included throughout the auditing standards. In addition to illustrating the two changes described above, the updates to the reports include changing the title to “Report of Independent Registered Public Accounting Firm.”<sup>11</sup>

b. Changes to PCAOB Rules

The Proposed Reorganization amends PCAOB Rule 3200T to remove (1) the reference to AU sec. 150, which, as discussed above, is rescinded, and (2) terms such as “interim auditing standards” and “generally accepted auditing standards.” These terms are no longer relevant under the Proposed Reorganization. Additionally, the Proposed Reorganization makes the rule

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<sup>10</sup> In 2004, the Commission published interpretive guidance to explain that references in Commission rules and staff guidance to GAAS or specific standards of GAAS, as they relate to issuers, should be understood to mean the standards of the PCAOB plus any applicable rules of the Commission. See Release No. 34-49708, FR-73 (May 14, 2004).

<sup>11</sup> In the Board’s final rule release, it notes that the amendments would not preclude an unregistered firm that applies PCAOB standards, when appropriate, from omitting “Registered” from the title of the report. See PCAOB Release No. 2015-002 at fn. 26 (March 31, 2015).

permanent, rather than temporary, and therefore removes the word “Interim” from its title.

### 3. Applicability and Effective Date

The PCAOB has proposed application of its Proposed Rules to audits of all issuers, including audits of emerging growth companies (“EGCs”),<sup>12</sup> as discussed in Section IV. below. The Proposed Rules also would apply to audits of SEC-registered brokers and dealers.<sup>13</sup>

The Proposed Rules would be effective as of December 31, 2016. However, auditors and others are not precluded from using and referencing the standards as reorganized pursuant to the Proposed Rules before the effective date because the amendments do not substantively change the standards’ requirements.<sup>14</sup>

### **III. Comment Letters**

As noted above, the Commission received four comment letters concerning the Proposed Rules. Three commenters expressed support for the Proposed Rules,<sup>15</sup> and the other commenter provided suggestions discussed further below.<sup>16</sup>

One commenter stated that the new organizational structure will improve the usability of the PCAOB’s auditing standards, including helping users navigate the standards more easily.<sup>17</sup>

Another commenter suggested adopting a similar structure used by the ASB and IAASB and

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<sup>12</sup> The term “emerging growth company” is defined in Section 3(a)(80) of the Exchange Act. 15 U.S.C. 78c(a)(80).

<sup>13</sup> On July 30, 2013, the Commission adopted amendments to Rule 17a-5 under the Exchange Act to require, among other things, that audits of brokers’ and dealers’ financial statements be performed in accordance with the standards of the PCAOB for fiscal years ending on or after June 1, 2014. 17 CFR 240.17a-5. See Broker-Dealer Reports, Release No. 34-70073, (July 30, 2013), 78 FR 51910 (August 21, 2013), available at <http://www.sec.gov/rules/final/2013/34-70073.pdf>.

<sup>14</sup> See PCAOB Release No. 2015-002 at 21.

<sup>15</sup> See Shatto Letter, Deloitte Letter and McMurtry Letter.

<sup>16</sup> See Wills Letter.

<sup>17</sup> See Deloitte Letter.

reorganizing the PCAOB's attestation, quality control, and ethics and independence standards. This same commenter expressed concern regarding the rescission of AU sec. 532 and removal of references to non-authoritative other guidance in the Proposed Reorganization.<sup>18</sup> Finally, one commenter suggested enhancements to improve the usability of the Proposed Reorganization, including a suggestion to embed PCAOB standards in the FASB's Accounting Standards Codification.<sup>19</sup> The PCAOB addressed many of these comments in its Original Proposal, Supplemental Request, and final rule release. The Commission does not find the PCAOB's responses to be unreasonable. The comment on embedding PCAOB standards in the FASB's Accounting Standards Codification is outside the scope of the Proposed Rules.

#### **IV. The PCAOB's EGC Request**

Section 103(a)(3)(C) of the Sarbanes-Oxley Act provides that any additional rules adopted by the PCAOB subsequent to April 5, 2012 do not apply to the audits of EGCs, unless the Commission determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation.<sup>20</sup> Having considered those factors, and as explained further herein, the Commission finds that applying the Proposed Rules to audits of EGCs is necessary or appropriate in the public interest.

In proposing application of the Proposed Rules to audits of all issuers, including EGCs, the PCAOB requested that the Commission make the determination required by Section 103(a)(3)(C). To assist the Commission in making its determination, the PCAOB prepared and

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<sup>18</sup> See McMurtry Letter.

<sup>19</sup> See Wills Letter.

<sup>20</sup> Section 103(a)(3)(C) of the Sarbanes-Oxley Act, as amended by Section 104 of the JOBS Act.

submitted to the Commission its own EGC analysis. The PCAOB's EGC analysis includes discussions of characteristics of self-identified EGCs and economic considerations pertaining to audits of EGCs, including efficiency, competition, and capital formation. In its analysis, the Board states the reorganization of PCAOB auditing standards would involve amendments that do not impose additional requirements on auditors or change substantively the requirements of PCAOB standards. Thus, the reorganization, including the amendments, is not expected to affect the manner in which audits are performed and reported under PCAOB standards, including audits of EGCs. Additionally, reorganizing the PCAOB standards into a single, integrated organizational structure should make it easier for auditors and others to navigate, use, and apply the standards.

The PCAOB's EGC analysis was included in the Commission's public notice soliciting comment on the Proposed Rules. Based on the analysis submitted, we believe the information in the record is sufficient for the Commission to make the requested EGC determination in relation to the Proposed Rules.

## **V. Conclusion**

The Commission has carefully reviewed and considered the Proposed Rules and the information submitted therewith by the PCAOB, including the PCAOB's EGC analysis, and the comment letters received. In connection with the PCAOB's filing and the Commission's review,

A. 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; and

B. Separately, the Commission finds that the application of the Proposed Rules to

EGC audits is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation.

IT IS THEREFORE ORDERED, pursuant to Section 107 of the Sarbanes-Oxley Act and Section 19(b)(2) of the Exchange Act, that the Proposed Rules (File No. PCAOB-2015-01) be and hereby are approved.

By the Commission.

Brent J. Fields  
Secretary