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RETAINING RULE 4003(d) RELATING TO INSPECTION FREQUENCY PCAOB Release No. 2007-006 May 24, 2007

PCAOB Rulemaking Docket Matter No. 022

Summary:

The Public Company Accounting Oversight Board ("Board" or "PCAOB") is retaining Rule 4003(d) and eliminating the June 30, 2007 tentative sunset provision that the Board put in place when the Board adopted the rule on December 19, 2006. Rule 4003(d), which is pending before the Securities and Exchange Commission ("Commission") for approval, provides the Board with certain limited flexibility concerning the timing of the first two Board inspections of firms that registered in 2003 or 2004. The Board is retaining the rule so that this flexibility will remain available to the Board through the first two inspections of such firms.

Board Contacts:

Michael Stevenson, Deputy General Counsel (202-207-9054; stevensonm@pcaobus.org), and, for questions relating to non-U.S. firms, Rhonda Schnare, Director of International Affairs (202-207-9167; schnarer@pcaobus.org).

On December 19, 2006, the Board amended PCAOB Rule 4003, "Frequency of Inspections," by adding a new paragraph (d). Rule 4003(d) lengthens the minimum period within which the Board must conduct the first and second inspections of public accounting firms that registered with the Board in 2003 or 2004.1

For a substantive discussion of the amendment and the Board's reasons for the amendment, <u>see</u> *Amendments to Board Rules Relating to Inspections*, PCAOB Release No. 2006-008 (December 19, 2006). As noted in that release, Rule 4003(d) does not affect the requirement that the Board annually inspect firms that regularly provide audit reports for more than 100 issuers. The text of Rule 4003(d) is also included in Appendix A to this Release.



RELEASE

The effect of Rule 4003(d) is to provide the Board with limited inspection scheduling flexibility, for administrative and programmatic reasons, but with no applicability beyond a firm's second inspection. In light of the nature of the rule, the Board adopted it as a final rule without first seeking public comment. The Board nevertheless invited public comment and provided that Rule 4003(d) would expire on June 30, 2007, unless the Board acted to extend it. The Board took that approach "to ensure that the Board will need to act again, after receiving comment, before giving Rule 4003(d) any longer period of effectiveness." The Board received two comment letters, both expressing support for the rule. The Board has determined to allow the rule to remain in place so that it will provide the Board with ongoing, albeit limited, flexibility concerning the timing of the first two inspections of firms that registered in 2003 and 2004. Accordingly, Rule 4003(d) will not expire on June 30, 2007.

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See id. at 6.

See Letter from Deloitte Touche Tohmatsu (February 16, 2007) and Letter from the North Carolina State Board of Certified Public Accountant Examiners (February 19, 2007), available on the Board's Web site at www.pcaobus.org/rules/docket_022.

In its current form, Rule 4003(d) includes references to inspection requirements for registered firms that play a substantial role in the preparation or furnishing of an audit report. Those references are consistent with the Board's rules currently in effect, but the Board has separately proposed amendments that would eliminate the Board's self-imposed requirement to conduct regular periodic inspections of firms that play such a role but do not issue audit reports. Those proposed amendments include conforming amendments to Rule 4003(d).

The Board has previously submitted Rule 4003(d) for Commission approval, and that submission is pending. The Board will file an amendment to that submission reflecting the receipt of comment letters and the Board action described in this Release. Rule 4003(d) will not take effect unless approved by the Commission.



RELEASE

On the 24th day of May, in the year 2007, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ J. Gordon Seymour

J. Gordon Seymour Secretary

May 24, 2007

APPENDIX -

PCAOB Rule 4003(d)



RELEASE

Appendix - PCAOB Rule 4003(d)

The Board has determined to retain Rule 4003(d) and eliminate the June 30, 2007 tentative sunset provision that the Board put in place when the Board adopted the rule. The text of Rule 4003(d) is set out below.

RULES OF THE BOARD

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SECTION 4. INSPECTIONS

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Rule 4003. Frequency of Inspections

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- (d) Notwithstanding paragraph (b) of this Rule, with respect to any registered public accounting firm that became registered in 2003 or 2004
 - (1) this Rule does not require the first inspection of the firm sooner than the fourth calendar year following the first calendar year in which the firm, while registered, issued an audit report or played a substantial role in the preparation or furnishing of an audit report; and
 - (2) this Rule does not require the second inspection of the firm sooner than the fifth calendar year following the first calendar year in which the firm, while registered, issued an audit report or played a substantial role in the preparation or furnishing of an audit report.

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