



KPMG LLP
757 Third Avenue
New York, NY 10017

Telephone 212 909 5600
Fax 212 909 5699
Internet www.us.kpmg.com

February 10, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

PCAOB Rulemaking Docket Matter No. 32
Proposed Temporary Rule for an Interim Program
of Inspection Related to Audits of Brokers and Dealers

Dear Mr. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (the PCAOB or the Board) Release No. 2010-008, *Proposed Temporary Rule for an Interim Program of Inspection Related to Audits of Brokers and Dealers* (the Release).

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank amendments) amended various provisions of the Sarbanes-Oxley Act of 2002 (the Act). Among other things, the Dodd-Frank amendments provide the Board with oversight authority with respect to audits of brokers and dealers that are registered with the Securities and Exchange Commission (the Commission). Specifically, the Dodd-Frank amendments provide the Board with authority to carry out the same oversight responsibilities it has carried out with respect to issuer audits – standards-setting, inspections, and investigations and disciplinary proceedings – in connection with registered public accounting firms' audits of brokers and dealers.

We support the Board's proposed approach of establishing an interim inspection program related to audits of brokers and dealers (the Program) and believe that it will allow the Board to achieve its objectives set forth in the Release to assess registered public accounting firms' compliance with laws, rules and professional standards in performing audits of brokers and dealers and informing the Board with respect to decisions about significant elements of a permanent inspection program. However, we believe that certain elements of the Release require further clarification and guidance, and have summarized our observations and recommendations for your consideration below.

The Proposed Interim Inspection Program

The Release indicates that one of the purposes of the Program is to “enable the Board to begin the work of assessing the degree of compliance of registered public accounting firms and their associated persons with the Act, the Board's rules, the Commission's rules, and professional standards in connection with the performance of audits, issuance of audit reports, *and related matters involving brokers and dealers.*” We suggest that the Board clarify what it intends to include in the interim inspection program with regard to “*related matters involving brokers and dealers.*” This clarification should provide registered public accounting firms with the Board's expectations relative to the performance and execution of their audits of brokers and dealers in accordance with the Board's and the Commission's rules as well as professional standards.



Office of the Secretary
Public Company Accounting Oversight Board
February 10, 2011
Page 2

We encourage the Board to elaborate on its expectations relative to the voluntary cooperation of “certain” registered public accounting firms prior to the temporary rules taking effect. The Release provides that, “even before any such rule takes effect...the Board expects to be able to conduct relevant procedures with the voluntary cooperation of certain firms.” The Board should clarify what it means by “relevant procedures” during the voluntary period, and whether it will include actual inspections of certain audits of brokers and dealers. Also, we believe that the Board should indicate the timing of such procedures and which registered public accounting firms are expected to voluntarily cooperate.

Scope, Focus and Duration of the Interim Program

We agree that the Board should include all applicable registered public accounting firms and all types of brokers and dealers in the scope of its Program to gain an understanding of the business and the associated accounting and audit risks. However, we encourage the Board to consider the potential costs and benefits of adopting a permanent inspection program that scopes in all types of brokers and dealers (and accordingly, all registered public accounting firms that audit any broker or dealer). We believe that the interests of the investing public would be best served by focusing the Board’s resources and efforts on those brokers and dealers that carry customer accounts and maintain customer cash and securities. These “clearing” brokers and dealers are typically considered to represent greater significance to the markets and investors than “introducing” brokers and dealers, whose customer accounts and transactions are cleared and carried on the books and records of a clearing broker and dealer.

Reporting and Related Matters

We support the Board’s intention of publishing the results of the Program’s progress no less frequently than every twelve months, beginning twelve months after the date the rule takes effect and continuing until rules for a permanent program are established. We believe that these reports will not only serve to further the public interest, but will help improve audit quality. We believe that these reports should not only describe the progress of the Program and any significant observations that may bear on the Board’s consideration of a permanent program, but also should include sufficient details on the nature and types of brokers and dealers inspected relative to the observations made to allow registered public accounting firms to improve their audits of brokers and dealers by improving their understanding of the specific issues raised in the reports.

Inspection Findings

Relative to firm-specific findings, we suggest that the Board clarify how it intends to communicate the Program’s findings, and the process by which registered public accounting firms can respond to identified deficiencies. The Release is unclear as to how the Board intends to communicate firm-specific Program findings or how registered public accounting firms are expected to respond to any deficiencies noted in the Program. Although the Board refers to a “draft inspection report” in footnote 10 of the Release, the Board has not incorporated Rule 4007, *Procedures Concerning Draft Inspection Reports* as applicable to the Program under proposed Rule 4020T, *Interim Inspection Program Related to Audits of Brokers and Dealers*. Furthermore, the proposed rule amendments in the Appendix to the Release do not discuss any provisions for the issuance of a draft inspection report or procedures to allow a registered public accounting firm to respond to inspection findings during the Program period.



Inspection Reporting

We have noted some inconsistencies between the Release language and the proposed temporary rule amendments regarding firm-specific inspection reports and seek clarification regarding the process by which the Board will report inspection deficiencies in such reports. Specifically, during the course of the Program it is not sufficiently clear how findings will be communicated to the firm, what opportunities the firm will have in responding to such findings, or the timing and extent to which interim inspection findings will be communicated in firm-specific public reports.

The Release states that the Board will bring identified audit deficiencies “to the firm’s attention with the expectation that the firm will address the deficiencies and take steps to avoid future such deficiencies.”¹ We are unclear how the Board intends to communicate those deficiencies throughout the Program period or what the Board’s expectations are for the firms to respond to deficiencies noted. The proposed temporary rule amendments in the Appendix to the Release do not discuss any procedures to allow a firm to respond to inspection findings during the Program period. We recommend the Board clarify the process as to how the firm can expect to receive and address comments from the Board (i.e., whether comments from the Board are anticipated to be written or oral and the expectations by the PCAOB for firm responses thereto) during the Program.

The Release provides that while the Program is in place, a Board inspection of a firm that performs audits of issuers and brokers or dealers would include the full, regular inspection – including the firm-specific inspection report – of the firm’s issuer practice. Such an inspection could also include inspection procedures under the Program with respect to the firm’s broker and dealer practice, but the Board would not expect to incorporate any evaluation of the firm’s broker and dealer practice into the public portion of a firm-specific report before the first inspection of the firm that occurs after a permanent program takes effect. Nothing in the temporary rule, however, would necessarily preclude the Board from issuing a firm-specific inspection report on, or including, inspection observations from the Program before a permanent program takes effect².

We believe that publicly issuing firm-specific reports during the Program period would be inconsistent with the Board’s expectation that inspection procedures performed on a firm as part of the Program are to “constitute a foundational portion of the firm inspection of the firm’s broker and dealer audit practice, which eventually would be completed and encompassed within a firm-specific inspection report following the establishment of the permanent program if the firm is included in the permanent program.” Given that the Commission’s rules with respect to reports to be made by certain brokers and dealers may be revised, and that the Board may revise standards with respect to the audits of brokers and dealers during the Program period, we believe that publicly disclosing firm-specific inspection findings for certain firms during the interim period may not be beneficial to investors or the public as the inspection findings may be based upon rules, regulations and standards that are no longer in effect at the time of issuance of the firm-specific inspection report and would not serve to help improve the quality of future audits by the registered public accounting firm.

¹ Page 9 of the Release.

² Footnote 21 of the Release.



Office of the Secretary
Public Company Accounting Oversight Board
February 10, 2011
Page 4

It is also unclear what Program observations the Board intends to include in the initial firm-specific report released after a permanent program takes effect. We note that the Board expects to issue firm-specific inspection reports after rules for a permanent program take effect. As stated above, the Board has explained that inspection observations noted throughout the Program period will constitute a “foundational portion” of the first inspection and firm-specific inspection report issued after the permanent program takes effect. The PCAOB expects that this process will result in “consistent and meaningful evaluations of the types of quality control issues that going forward, firms need to address in their practices.”³ Although we expect that the Board would only publish observations noted during the Program period that would have an impact on a registered public accounting firm going forward, the Release does not address what specifically the Board intends to include in the initial firm-specific public report. For example, it is not clear as to whether potential deficiencies cited in a firm-specific report (or reported orally to a registered public accounting firm) will be cumulative in nature – that is, whether inspection comments will be cumulative over the course of the three years of the Program.

Regardless, we have concerns with respect to including deficiencies identified during the Program in the first report under the permanent program. First, because the Board will be updating its standards, it is likely that inspection deficiencies will relate to standards that have been amended. Second, we are concerned that there would be a significant reporting time lag – including inspection findings based on inspections of 2010 audits in 2014 firm-specific reports. We believe that issuing a firm-specific report that includes inspection deficiencies that are outdated and likely no longer applicable due to either the standards being amended and/or replaced or the firms having amended or changed practice to address deficiencies identified, would be inappropriate, and particularly so if reported to the public. Accordingly, we request the Board to reconsider whether it is helpful to include Program findings in the initial firm-specific report under the permanent program.

We note that the Release indicates that if registered public accounting firms are exempted under the permanent rules, findings from firm-specific inspections will not be made public after rules for a permanent program takes effect; unlike registered public accounting firms that are not exempted. Subject to our comments above, we recommend that the Board limit findings included in the initial firm-specific report issued after the permanent rule takes effect to only those findings related to audits of brokers and/or dealers that are not exempted from the permanent inspection program.

* * * * *

We appreciate the Board’s careful consideration of our comments. If you have any questions regarding our comments or other information included in this letter, please do not hesitate to contact Sam Ranzilla, (212) 909-5837, sranzilla@kpmg.com, or Scott Frew, (212) 909-5804, sfrew@kpmg.com.

Very truly yours,

KPMG LLP

³ Page 10 of the Release.



Office of the Secretary
Public Company Accounting Oversight Board
February 10, 2011
Page 5

cc: PCAOB Members and SEC Commissioners

PCAOB

James R. Doty, Chairman
Lewis H. Ferguson, Member
Daniel L. Goelzer, Member
Jay D. Hanson, Member
Steven B. Harris, Member
George Diacont, Director, Division of
Registration and Inspections

SEC

Mary L. Schapiro, Chairman
Luis A. Aguilar, Commissioner
Kathleen L. Casey, Commissioner
Troy A. Paredes, Commissioner
Elisse B. Walter, Commissioner
James L. Kroeker, Chief Accountant
Brian T. Croteau, Deputy Chief Accountant