

**Fact Sheet – Proposed Interim Inspection Program
For Broker-Dealer Audits**

1. Recent Statutory Amendments

The Sarbanes-Oxley Act originally gave the Board authority and responsibility to inspect registered public accounting firms with respect to their auditing of "issuers" (generally defined to encompass most public companies the securities of which trade in U.S. capital markets). Section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act expanded that inspection authority to include audits of registered securities brokers and dealers.

The amended Act authorizes the Board to establish, by rule, a program of inspection for auditors of brokers and dealers. The Act also leaves to the Board (subject to the approval of the Securities and Exchange Commission) important questions about the elements of the program, including –

- Whether to differentiate among classes of brokers and dealers (section 104(a)(2)(A))
- Whether differing inspection schedules would be appropriate with respect to auditors that issue audit reports only for brokers or dealers that do not receive, handle, or hold customer securities or cash or are not members of the Securities Investor Protection Corporation (section 104(a)(2)(B))
- Whether to exempt any public accounting firm from such an inspection program, the firm would not be required to register with the Board (section 104(a)(2)(D))

2. Purpose of A Temporary Rule for an Interim Program

The Board is proposing a temporary rule to establish an interim inspection program. This will allow the Board to begin inspection work on audits of broker and dealers without waiting until the Board can make fully informed judgments about the scope of a permanent program. The Board also expects that information gathered through the interim inspection program will be useful in making judgments about the scope of the permanent program, including consideration of potential costs and regulatory burdens that would be imposed on different categories of registered public accounting firms and classes of brokers and dealers.

3. The Interim Inspection Program

In conducting inspection work under the interim program, the Board will assess auditors' compliance with the Act, the Board's rules, the Commission's rules, and

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professional standards in connection with the performance of audits, issuance of audit reports, and related matters involving brokers and dealers. The proposed temporary rule, however, would not change anything about the rules or standards that currently govern audits of broker and dealers. As the Securities and Exchange Commission has previously explained, its rules continue to require those audits to be carried out under GAAS, or generally accepted auditing standards.

The Board anticipates that the applicable rules and standards may change through Board and Commission action during the period the interim inspection program is in place. Inspection procedures under the interim program will focus on assessing compliance with the rules and standards that applied to the inspected audit work at the time the audit work was done.

Under the proposed rule, the Board would issue public reports at least annually to describe the progress of the interim program and any significant observations. The Board would not expect to issue firm-specific inspection reports before the scope of a permanent program is set, but the Board's procedures under the interim program would include identifying and addressing with the inspected firm any significant issues in its audit work and, where appropriate, referring information about potential violations by brokers and dealers to the Securities and Exchange Commission and the Financial Industry Regulatory Authority, or taking disciplinary action against an auditor.

4. Comments are due to the PCAOB by no later than February 15, 2011.

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