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STATEMENT REGARDING STANDARDS-SETTING PROCESS

AND

ESTABLISHMENT OF INTERIM STANDARDS

APRIL 16, 2003 PUBLIC MEETING OF THE BOARD

At its public meeting on April 16, 2003, the Public Company Accounting Oversight Board will consider whether to announce the process it will use to establish auditing and other professional standards for registered public accounting firms, and whether to establish interim standards of auditing, attestation, quality control, ethics, and independence.

I. Standards-Setting Process

Section 103(a) of the Sarbanes-Oxley Act of 2002 provides that the Board shall, by rule, establish auditing (and related attestation), quality control, and ethics standards to be used by registered firms in the preparation of audit reports. Section 103(b) authorizes the Board to adopt rules relating to auditor independence. At the public meeting, the Board will consider whether to release a statement generally describing the process it will follow when establishing these new standards.

Standards will be formulated by the PCAOB, with input from and assistance by an advisory group. Included in the draft release is proposed PCAOB Rule 3700, which would govern the formation, composition and role of this advisory group. As proposed, the advisory group will consist of people with expertise in (among other areas) the accounting and auditing profession, public company finance, governance and investing.

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Membership will be determined so that each of the accounting/auditing, finance, and investment fields will be limited to no more than one-third of the total group.

The release also generally describes the process the Board intends to use in setting new standards and changing existing standards, including the steps the Board will take in accepting recommendations, developing proposed standards, exposing those proposed standards for public comment, and then determining whether to approve new or changed professional auditing standards. Following its process, all professional auditing standards adopted by the Board will be submitted to the Securities and Exchange Commission for approval, pursuant to Section 107 of the Act.

Section 103 of the Act authorizes the Board to designate or recognize any professional group of accountants to propose new standards. The Board has determined not to exercise this authority.

The release also announces three high-priority standards-setting projects:

- a review of existing professional auditing standards that will commence as soon as possible,
- consideration of auditing standards required by the Act, and
- a review of the standard for an auditor's attestation relating to public companies' internal controls pursuant to Section 404(b) of the Act. The Board will also consider whether to convene a roundtable meeting in the near future to explore this issue.

In connection with the standards-setting process, the Board will also consider whether it should propose Rule 3100 and a related definition that would appear in Rule 1001. Rule 3100 would require all registered public accounting firms to adhere to the Board's auditing (and related attestation), quality control, and ethics standards, and its independence rules, in connection with the preparation or issuance of any audit report for an issuer (as defined in the Act).

Public Comment

If the Board issues the statement, it will seek comment on proposed PCAOB Rules 3100 (and related definition) and Rule 3700. Interested persons are encouraged to submit their views to the Board. Written comments should be sent to Office of the

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Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments may also be submitted by e-mail to comments@pcaobus.org or through the Board's website at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 004 in the subject or reference line and should be received by the Board no later than May 12, 2003.

The Board will carefully consider all comments received. Following the close of the comment period, the Board will determine whether to amend its proposals, will adopt final rules, and will submit those rules to the Securities and Exchange Commission for approval. Pursuant to Section 107 of the Act, proposed rules of the Board do not take effect until approved by the Commission.

II. Interim Standards

Section 103(a)(3)(B) of the Act provides that the Board "shall adopt [existing auditing and other professional standards] as initial or transitional standards, to the extent the Board determines necessary, prior to a determination of the Commission under Section 101(d)" that the Board is capable of carrying out its responsibilities under the Act. Unlike other Rules of the Board, under Section 103(a)(3)(B) of the Act, the Board's Interim Professional Auditing Standards "shall be separately approved by the Commission at the time of the determination, without regard to the procedures required by Section 107" of the Act regarding rulemaking. At the public meeting, the Board will consider whether to establish interim standards of auditing, attestation, quality control, ethics, and independence ("Interim Professional Auditing Standards") on an initial, transitional basis in order to assure continuity and certainty in the standards that govern audits of public companies.

Consistent with the Act, the Interim Professional Auditing Standards the Board will consider are existing professional standard that were previously promulgated by various other bodies. If adopted, they will remain in effect while the Board conducts a review of the auditing and other professional standards applicable to registered public accounting firms, as provided for in the new standards-setting process. Based on this review, the Board may modify, repeal, replace or adopt permanently the Interim Professional Auditing Standards, or any part thereof, by rulemaking according to the Board's procedures for the establishment of professional auditing standards and subject to Commission approval.



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PCAOB is a private-sector, non-profit corporation, created by the Sarbanes-Oxley Act of 2002. Its mission is to protect investors in the U.S. markets and to further the public interest by ensuring that public company financial statements are audited according to the highest standards of quality, independence, and ethics. The Board will be principally funded by fees collected from public companies. The costs of processing and reviewing public accounting firm registration applications will be recovered from registration fees paid by those firms.

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