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# RULES ON PERIODIC REPORTING BY REGISTERED PUBLIC ACCOUNTING FIRMS

## Statement of Daniel L. Goelzer

The periodic reporting rules before us today have a simple, limited purpose. They are designed to provide the Board with updates of information that firms file with the Board at the time of their initial registration. Congress clearly envisioned this. Section 102(d) of the Sarbanes-Oxley Act requires registered public accounting firms to submit annual reports to the Board, and authorizes the Board to prescribe other reports, as necessary to update the information contained in registration applications.

The information that will need to be filed under these rules is limited to events and changes in the firm and its practice that are important to the Board's responsibilities -- primarily its inspection function. The things covered by the rules include the nature and size of the firm's practice; any relationships it may enter into with persons or firms that have been sanctioned by the Board or the SEC; and legal proceedings against the firm or its partners related to their professional practice. It is hard to imagine how the Board could do its job if it did not have a mechanism to learn routinely about these sorts of developments.

Just as important as what the periodic reporting rules will do is what they will not do. This reporting is not intended to provide the public with insight into the quality of a firm's audit practice or to present a snap-shot of the firm's financial condition. While the rules will provide some data regarding litigation, the information required is not designed as an early warning system regarding possible firm instability or catastrophic loss.

Whether -- and if so how -- the Board should use its authority to create that broader kind of reporting is the subject of much current debate. In 2007, the Department of the Treasury established a federal advisory committee to examine the auditing profession. Last week, the advisory committee issued a paper which raises questions regarding whether the Board should require large auditing firms to disclose information to the public related to audit quality, financial condition, and stability. Those ideas are now open for public comment and will presumably be addressed in the advisory committee's final report, later this year.

Notwithstanding the ongoing advisory committee work, there are good reasons to adopt the more modest proposed rules now. The majority of registered U.S. firms submitted their registration applications in 2003, and the majority of non-U.S. firms submitted their applications in 2004. Therefore, the data in most registration applications is between four and five years old. The Board's work – particularly planning inspections – will benefit from a reporting system that regularly and automatically refreshes this information, rather than forcing the Board's staff to collect updates ad hoc.

It is also important to recognize that periodic reporting, regardless of the specific information covered, requires the Board to build new infrastructure -- particularly IT infrastructure. Creating a web-based filing system that can be integrated with other Board functions has entailed some challenges. Once that system is in place, however, it will be relatively easy to expand it to encompass new kinds of information, if the Board decides that is appropriate. But the first step is to get periodic reporting up and running.

Careful consideration has gone into what should and, equally important, what need not be included in these rules. As a practical matter, most registered firms are not routinely involved in litigation, in mergers, in associations with barred auditors, or in most of the other kinds of events that these rules address. For smaller firms with limited resources to devote to regulatory filings -- and that describes the great majority of our nearly 1,900 registrants -- reporting should not turn out to be a major burden.

Of course, just wading through and understanding the 90 pages of explanatory release, rule text, and form instructions will be daunting for many. I hope we will produce a plain English guide to periodic reporting to help small firms comply. I can also assure smaller firms that we will make it a priority to provide practical advice and guidance on periodic reporting at the Board's Small Business Forums.