



July 24, 2006

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW, 9th Floor
Washington, DC 20006

PricewaterhouseCoopers
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New York, NY 10017
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Re: PCAOB Rulemaking Docket Matter No. 020

Dear Mr. Secretary,

PricewaterhouseCoopers appreciates the opportunity to comment on the Public Company Accounting Oversight Board's proposed rules, *Proposed Rules on Succeeding to the Registration Status of a Predecessor Firm*, PCAOB Release No. 2006-005, May 23, 2006, PCAOB Rulemaking Docket Matter No. 020. We commend the efforts of the PCAOB to establish helpful rules that would allow a registered public accounting firm's registration status to continue with an entity that emerges after a merger or other change in the registered firm's legal form. We have reviewed the proposed rules of the Board and have a few observations and proposals that we feel will help support the overall objectives of the Board. Our comments are set forth in the attachment.

In general, we feel that the rules create an effective mechanism to ensure continuity of registration in appropriate circumstances, and thereby spare firms that change organization or engage in transactions from the burden of reregistering under Form 1. However, we feel that the rules might be clarified in certain respects without altering their fundamental objectives. Our specific comments are set forth in the accompanying document

We will be pleased to discuss any of our comments or answer any questions that you may have. Please do not hesitate to contact Richard R. Kilgust at 646-471-6110 regarding our comment letter.

Very truly yours,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers". The signature is written in dark ink and is positioned above the typed name.

PricewaterhouseCoopers

PricewaterhouseCoopers Comment Letter Dated July 24, 2006

Proposed Rules on Succeeding to the Registration Status of a Predecessor Firm, PCAOB Release No. 2006-005, May 23, 2006, PCAOB Rulemaking Docket Matter No. 020

PricewaterhouseCoopers (“PwC”)¹ appreciates the opportunity to comment on the Public Company Accounting Oversight Board’s (the “Board” or “PCAOB”) rulemaking proposal relating to succession of registration status in certain circumstances.

PwC commends the Board’s efforts to develop a flexible system of allowing successor firms to succeed to the predecessor firm’s registration status. We particularly appreciate the Board’s sensitivity to the need to avoid unnecessarily burdensome regulatory requirements. Our comments on the proposed rules focus primarily on clarifying the rules, rather than changing any fundamental objectives of the proposed rules.

This comment letter presents our comments on certain aspects of the proposed rules that should be clarified and/or that should be reconsidered to mitigate burdens on successor firms. Where appropriate, we present alternatives that we believe would address these points while at the same time retaining the Board’s underlying purposes for the proposed rules.

I. FILING PERIOD FOR FORM 4

Proposed Form 4 prescribes a 14-day filing period for all firms seeking to succeed to the registration status of the predecessor firm. As a general proposition, we believe 14 days is an unduly short timeframe within which to require a firm to review, assess and report on information required by the Form. Although many of the matters covered by the form are accessible and available, we do not believe that firms should be denied the benefits of the successor rules if they are unable to complete the work within two weeks after a change in organization or a merger.

Form 4 does allow firms to file “out of time.” However, we are concerned that this does not provide a meaningful alternative. In cases where a firm files a petition for an out of time application, it is unclear whether the firm can still issue audit reports for audit clients while the Board reviews the out of time request. Nor is it clear what the effect is if the Board denies the request, both with respect to audit reports that were issued after the 14 day period expires and the filing of the out-of-time request and with respect to audit reports that were issued while the out-of-time request is pending. The resulting uncertainty would not be in the interests either of firms or their audit clients.

As an alternative, we would propose a 45-day deadline for filing a Form 4 registration succession request. A 45-day deadline would still constitute timely reporting while allowing firms sufficient time to compile and file the necessary information. While it is to be expected that many firms may require less than the full 45 days to complete Form 4, the administrative ease and simplicity

¹ PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International, Ltd., each of which is a separate and independent legal entity.

of having a single time period for all items will ease the compliance burden considerably. If a longer period is provided, then we believe the out-of-time procedure can be omitted altogether. This will provide certainty about the continuing validity of audit reports issued by successor firms.

We also believe the rule should be clarified to state that the registration of the successor firm remains in effect pending the filing of the Form 4. While this is implicit in the rules, it is desirable to make it explicit.

PROPOSAL: Time period for filing Form 4 would be 45 days. The successor firm will be registered and can continue to issue audit report during the filing period. Out-of-time applications will not be allowed.

II. RESPONSIBILITY FOR CONDUCT OF PREDECESSOR FIRM

Item 4.2 of proposed Form 4 requires the successor firm to affirm that it “either has retained or willingly assumes legal responsibility for the conduct of” any predecessor firm. We think it is reasonable for the Board to condition successor registration on the successor firm acknowledging the Board’s ongoing regulatory powers with respect to matters predating the transaction. However, we believe that nothing in the proposed rules or Form 4 should result in an assumption of liability by the successor firm for any matters other than possible disciplinary actions by the Board. Thus, we think the certification can be more closely tailored to the Board’s regulatory purpose without using such broad language.

PROPOSAL: Revise Item 4.2 to read:

“Item 4.2 Continuing Authority of the Board Over Previous Conduct.

“Acknowledge and agree to the Board’s continuing authority, including but not limited to the authority to require reporting of information and the authority to impose disciplinary sanctions for the conduct of any predecessor registered public accounting firm before the change or business combination took effect.”

III. ACQUISITION TRANSACTIONS

We think it would be helpful to provide a definition of “acquisition” for purposes of Rule 2108 and Item 3.2. Otherwise, there could be uncertainty in planning transactions as to whether a particular transaction would result in transfer of the registration to a successor. For example, does hiring a majority of the predecessor firm’s partners, principals or shareholders amount to an

acquisition? Or must the successor firm also acquire the predecessor firm's assets or a substantial portion thereof?

PROPOSAL: Conform what is a covered acquisition in Form 4 to the definitions of reportable transactions under Part VIII of Form 2.

Item 3.2 also requires that the successor firm submit a statement that, among other things, certifies that as part of an acquisition transaction, a majority of the predecessor firm's partners, principals or shareholders "moved into" the entity resulting from that transaction. The phrase "moved into" could be clarified, as it is unclear what capacity the former partner, principal or shareholder must "move." We suggest adopting language along the lines of similar provisions in the proposed reporting rules.

PROPOSAL: Provide that a majority of the predecessor firms' partners, principals or shareholders "are taken on as employees, partners, shareholders, principals, members or owners" of the successor firm.

The statement under Item 3.2 also requires that the successor firm attest that the predecessor firm is no longer a public accounting firm. While the Board notes that this allows the predecessor firm to retain businesses other than public accounting, it precludes a predecessor firm from engaging in public accounting even if it no longer issues audit reports on audit clients. It is not clear why a firm should not be able to transfer or spin off its U.S. audit client business and remain in public accounting so long as it gives up its U.S. registration with the Board. This may be a particular issue for foreign registered public accounting firms.

PROPOSAL: Provide that a successor firm can succeed to the predecessor firm's registration if it acquires all of the predecessor firm's U.S. audit client business or if a majority of the predecessor firm's partners, principals or shareholders engaged in that business "are taken on as employees, partners, shareholders, principals, members or owners" of the successor firm.

IV. TEMPORARY REGISTRATION STATUS

In cases of acquisitions (but not change in form of organization), Rule 2108 creates the possibility of temporary successor registration status. In cases where a successor firm answers certain questions affirmatively, the firm is not eligible for successor registration, but instead can receive a temporary registration pending filing of and Board action on a registration application on Form 1. The rules, as they currently stand, note that this temporary registration will last for "the earlier of the date that the entity's application on Form 1 is approved or the date that is 91 days after the effective date of the acquisition or combination...."

As worded currently, the proposed rules could create the situation where temporary registration status might lapse while approval of the successor firm's Form 1 application is still pending review. Theoretically, 90 days should be sufficient since rule 2106(b) provides that the Board will act upon applications for registration within 45 days. However, in some cases the Board can ask for more information, which would restart the 45-day clock. In that case, an extended time for registering would be appropriate.

PROPOSAL: The Board should revise the language of Rule 2108(b)(2)(i) to read, "subject to the qualification in subparagraph (ii), that entity shall temporarily succeed to the registration status of the registered firm for a transitional period, but that registration will cease to be effective on the date that the PCAOB renders a decision on the entity's Form 1 application."

IV. LICENSES AND CERTIFICATIONS

Items 3.1e, 3.1f, 3.2c, and 3.2d require disclosure of changes in licenses or certifications resulting from the transaction. Some such changes could occur after the filing of the Form 4. We assume the Board's does not intend the filing to be deficient if the Form 4 is amended to report such information after the filing date.

PROPOSAL: State expressly that information responsive to these items relating to changes in licenses or certifications that occur after the filing date may be filed by amendment.