

DECEMBER 19, 2006 OPEN MEETING

AMENDMENTS TO BOARD RULES RELATING TO INSPECTIONS

Statement of Daniel L. Goelzer

While Rule 4003(d) will serve an important purpose, I think there is less to this proposal than meets the eye.

First, Rule 4003(d) will not have the effect of excusing any firm from being inspected in 2006 that should have been inspected under the Sarbanes-Oxley Act. The Act requires the inspection, at least once every three years, of any firm that “regularly issues” audit reports on 100 or fewer public companies. Every firm that registered in 2003 and that subsequently issued an audit report that year has been inspected, as have more than 300 other firms.

Second, Rule 4003(d) will not make any permanent adjustment to the three-year inspection frequency specified in the Act. It will only permit us to adjust first and second inspections of firms that registered in the first two years of Board operations. Without those adjustments we would face, for the rest of our existence, peaks and valleys in our inspection workload that mirror the 2003/2004 surge in registrations and the initial ramp-up of the Board’s inspections program in the following years. The goal of the rule is to be faithful to the three-year cycle by evening out the inspections workload so that roughly equal numbers and types of firms need to be inspected each year.

Third, Rule 4003(d) will dovetail with the Board’s approach to foreign inspections. Many of the firms whose first inspections will be affected by this rule in 2007 are located outside of the United States. Many of them do not actually issue audit reports on U.S. companies -- they only participate in those audits by reviewing the books of a subsidiary or affiliate in their jurisdiction. We have registered firms in 81 countries and have made clear that, to the greatest extent appropriate, we intend to conduct our foreign inspections in conjunction with home country regulators. As a collateral benefit, Rule 4003(d) will give the Board more time to make that philosophy a reality by pursuing consultations with accounting oversight bodies in other jurisdictions.

I would also like to say a few words about the somewhat unusual procedural posture of this rule. The Board’s policy, since its inception, has been to conduct its rulemaking in a transparent way, including the opportunity for public comment. However, Rule 4003(d) is primarily a housekeeping change, not one that will have a significant impact on firms or investors. It is nonetheless important that it be put in place to afford the Inspections staff the flexibility to plan its workload in a manner that

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focuses resources on priority inspections. The best way to accommodate both of these objectives is to adopt the rule with immediate effectiveness, but on a temporary basis, and to invite public comment. The inspections staff can then rely on Rule 4003(d) to schedule its 2007 work. But, the Board will not decide whether to make the rule a permanent part of its regulatory framework until we have the chance to consider the views of commentors. While I don't think this procedure will or should become a precedent for future rulemaking, it seems to make sense in this case.