

Public Company Accounting Oversight Board
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United States

Chris Barnard
Actuary

27 January 2011

- **Release No. 2010-008**
- **PCAOB Rulemaking Docket Matter No. 032**
- **Proposed Temporary Rule for an Interim Program of Inspection Related to Audits of Brokers and Dealers**

Dear Sir,

Thank you for giving us the opportunity to comment on your Proposed Temporary Rule for an Interim Program of Inspection Related to Audits of Brokers and Dealers.

The rule requires that the audit include a review of the accounting system, a review of the internal accounting control and procedures for safeguarding securities, and all other procedures necessary to enable the auditor to express an opinion on the following:

- the statements of financial condition, results of operations, and cash flows;
- the computation of net capital pursuant to Rule 15c3-1 under the Exchange Act;
- the computation for determination of reserve requirements pursuant to Exhibit A to Rule 15c3-3 under the Exchange Act; and
- information relating to the possession or control requirements under Rule 15c3-3.

I support these objectives. I would expect that the proposed inspections would promote improvements in the auditing of brokers and dealers, which is an area requiring more oversight, and would result in significantly more robust audits of brokers and dealers in the future. However, the auditor cannot provide absolute assurance, nor should we expect it to.

I also support that the proposed interim inspections should be used to assess the quality of current audits, and to garner information which would help to inform the Board's decisions

about significant elements of a permanent inspection program. According to Daniel L. Goelzer, Acting Chairman of the Board:

About 520 brokerage firms provide clearing or custodial services. Many of the others are introducing firms that, at least in theory, do not have access to client funds or securities. Some are floor brokers without public clients; some are insurance agents that sell products that are technically securities; some are finders active in the M&A market; some are captives that serve the trading needs of a single, affiliated client. Other categories undoubtedly exist. This diversity raises questions about whether we should devote resources to inspecting the auditors of all of these types of brokers and dealers or whether some of their auditors can safely be exempted from PCAOB oversight without compromising investor protection.

While the Board does not yet have the answers to those questions, the temporary rule will allow the Board to begin inspections of broker-dealer audits so that we can develop an empirical basis on which to eventually address them.¹

I fully agree with this. Mr Goelzer has highlighted some of the different businesses and roles that brokers and dealers are involved in. In terms of the proposed temporary rule, I would recommend that the Board should focus on those entities that have access to client funds or securities, and establish a minimum threshold size of entity, which could be inspected. Furthermore, I would recommend that inspections be carried out at least every twelve months, and that the proposed temporary rule should cover at least two inspections per entity, in order that comparative analyses can be made of the results between consecutive inspections.

The release states that the Board expects the rules and standards governing audits of brokers and dealers to evolve during the interim program. The release also states that the PCAOB expects to report conduct that suggests a violation of SEC or other rules by brokers and dealers, to the SEC, FINRA or other authorities. I would support this approach.

Yours faithfully

C.R.B

Chris Barnard

¹ Statement on Proposed Temporary Rule for an Interim Program of Inspection Related to Audits of Brokers and Dealers by Daniel L. Goelzer, Acting Chairman, PCAOB, December 14 2010.