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U.S. capital markets^{1/}). The Act also authorized and charged the Board to carry out a range of oversight responsibilities related to issuer audits. Those responsibilities include conducting a program of inspections of registered public accounting firms in connection with their performance of audits, issuance of audit reports, and related matters involving issuers.^{2/} The Board has been conducting such a program for several years.^{3/}

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act^{4/} amended various provisions of the Act ("the Dodd-Frank amendments"). Among other things, the Dodd-Frank amendments gave the Board oversight authority with respect to audits of brokers and dealers that are registered with the Securities and Exchange Commission ("Commission"). Specifically, the Dodd-Frank amendments provide the Board with authority to carry out the same oversight responsibilities it has carried out with respect to issuer audits – standards-setting, inspections, and investigations and disciplinary proceedings – in connection with registered public accounting firms' audits of brokers and dealers.^{5/} The legislative history notes that this new authority "enables the PCAOB to use its inspection and disciplinary processes to

^{1/} As defined in Section 2(a)(7) of the Act, "issuer" means an issuer (as defined in Section 3 of the Securities Exchange Act of 1934 ("Exchange Act")) the securities of which are registered under Section 12 of the Exchange Act, or that is required to file reports under Section 15(d) of the Exchange Act, or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933 and that it has not withdrawn.

^{2/} See Section 104(a)(1) of the Act (originally Section 104(a) of the Act).

^{3/} Information about the Board's inspection program related to audits of issuers, including rules, general reports, and the public portions of reports on inspections of individual firms, is available at <http://pcaobus.org/Inspections/Pages/default.aspx>.

^{4/} Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010).

^{5/} For purposes of the Board's authority, "audit" includes an examination of financial statements, reports, documents, procedures, controls, or notices of any issuer, broker, or dealer, and an "audit report" is a document, report, notice, or other record, prepared following an audit, in which an auditor sets forth an opinion regarding the financial statement, report, notice, or other document, procedures or controls, or asserts that no opinion can be expressed. For the precise definitions of "audit" and "audit report," see Sections 110(1)-(2) of the Act, as amended.

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identify auditors that lack expertise or fail to exercise care in broker and dealer audits, identify and address deficiencies in their practices, and, where appropriate, suspend or bar them from conducting such audits."^{6/}

The Dodd-Frank amendments do not prescribe a specific program of inspection of registered public accounting firms that provide audit reports for a broker or dealer. Rather, the Dodd-Frank amendments authorize the Board to establish such a program by rule,^{7/} and leave to the Board important questions concerning the elements of the program. Among other things, Section 104(a)(2) of the Act (1) provides that, in establishing the program, the Board may allow for differentiation among classes of brokers and dealers; (2) requires that the Board consider whether differing inspection schedules would be appropriate with respect to auditors that issue audit reports only for brokers or dealers that do not receive, handle, or hold customer securities or cash or are not members of the Securities Investor Protection Corporation ("SIPC"); and (3) provides that if the Board exempts any public accounting firm from such an inspection program, the firm would not be required to register with the Board.

In a release issued on December 14, 2010, the Board explained that it intended to take a careful and informed approach to those questions in establishing a permanent program that appropriately protects the public interest and the interests of investors, including consideration of potential costs and regulatory burdens that would be imposed on different categories of registered public accounting firms and classes of brokers and dealers. The Board also explained that it did not intend to make the necessary judgments without first gathering and assessing relevant information, but that it did not intend to postpone all use of its new inspection authority until after those judgments were made. Accordingly, the Board proposed for public comment a temporary rule for an interim program of inspection that would allow the Board to begin inspections of

^{6/} S. Rep. No. 176, 111th Cong., 2d Sess. (April 30, 2010) at 154. The Dodd-Frank amendments to Section 102(a) of the Act also expanded the Act's registration requirement by making it unlawful for any person that is not a registered public accounting firm to prepare or issue, or to participate in the preparation or issuance of, any audit report with respect to any broker or dealer. Even before the Dodd-Frank amendments, however, Section 17(e)(1)(A) of the Exchange Act, as amended in 2002, required that the balance sheets and income statements filed with the Commission by registered brokers or dealers be certified by a public accounting firm registered with the PCAOB.

^{7/} Section 104(a)(2)(A) of the Act, as amended.

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relevant audits and auditors and provide a source of information to help guide decisions about the scope and elements of a permanent program.^{8/}

The Board received twelve written comment letters on the proposed rule,^{9/} including two from members of Congress,^{10/} three from registered public accounting firms,^{11/} three from professional associations of public accountants (or affiliates of such associations),^{12/} and three from other professional associations or advocacy organizations for the financial services industry.^{13/} After considering all comments submitted, the Board is today adopting temporary rule 4020T (and adding related notes to certain definitions in Rule 1001) largely as proposed.^{14/}

^{8/} PCAOB Release No. 2010-008, Proposed Temporary Rule for an Interim Program of Inspection Related to Audits of Brokers and Dealers (December 14, 2010) (the "proposing release") (available on the PCAOB web site at <http://pcaobus.org/Rules/Rulemaking/Pages/Docket032.aspx>).

^{9/} The comment letters are available on the PCAOB web site at <http://pcaobus.org/Rules/Rulemaking/Pages/Docket032.aspx>.

^{10/} Letter from the Hon. Spencer Bachus, Chairman, Committee on Financial Services, and the Hon. Scott Garrett, Chairman, Subcommittee on Capital Markets and Government Sponsored Enterprises (May 27, 2011) ("the Bachus-Garrett letter"); letter from the Hon. John Campbell, the Hon. Michael K. Conaway, the Hon. Bill Flores, the Hon. Lynn Jenkins, the Hon. Steven Palazzo, the Hon. Collin C. Peterson, the Hon. Jim Renacci, and the Hon. Brad Sherman, Members of the United States House of Representatives (February 14, 2011) ("the letter from Certain Members of Congress").

^{11/} Letters from McGladrey & Pullen, LLP (February 9, 2011), KPMG LLP (February 10, 2011), and Grant Thornton LLP (February 14, 2011).

^{12/} Letters from the Accounting Principles and Auditing Standards Committee of the California Society of Certified Public Accountants (February 8, 2011), the American Institute of Certified Public Accountants (February 15, 2011), and the Center for Audit Quality (February 15, 2011).

^{13/} Letters from the National Association of Independent Broker Dealers (February 9, 2011), the Third Party Marketers Association (February 10, 2011), and the Financial Services Institute (February 15, 2011).

^{14/} The version of Rule 4020T adopted today differs from the proposed version in three respects. First, the proposed version included definitions of "broker" and "dealer" that are omitted from the final version of Rule 4020T because they are

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II. The Interim Inspection Program

The interim program will have two purposes. First, it will enable the Board to begin the work of assessing the degree of compliance of registered public accounting firms and their associated persons with the Act, the Board's rules, the Commission's rules, and professional standards in connection with the performance of audits, issuance of audit reports, and related matters involving brokers and dealers.^{15/} Second, it will inform the Board's eventual determinations about the elements of a permanent program, including whether and how to differentiate among classes of brokers and dealers, whether to exempt any category of public accounting firm, and the establishment of minimum inspection frequency schedules.^{16/}

being added to the generally applicable definitions in PCAOB Rule 1001 as part of rule amendments separately adopted today in connection with allocating the Board's accounting support fee among issuers, brokers, and dealers. Second, for reasons described below, the version of Rule 4020T adopted today includes a provision incorporating PCAOB Rule 4007, on procedures concerning draft inspection reports, PCAOB Rule 4008, on procedures concerning final inspection reports, and PCAOB Rule 4009, on firms' responses to quality control criticisms, which were not included in the proposed version of the rule. Third, to conform paragraph (c) of the rule to the Act and to paragraph (a)(1) of the rule, the phrase "and related matters involving brokers and dealers" has been added to paragraph (c).

^{15/} This description of the scope of matters assessed in an inspection was included in the proposed rule and is included in Rule 4020T(a)(1) adopted today. The language tracks Section 104(a)(1) of the Act describing the scope of matters to be assessed in the Board's inspections of issuer auditors. The inclusion of that same scope language in Rule 4020T follows from Section 104(a)(2)'s provision that a Board program of inspections of auditors of brokers and dealers be "in accordance with" Section 104(a)(1). Two commenters suggested that the Board clarify the meaning of "related matters involving brokers and dealers" so that registered firms can fully understand the Board's expectations relative to the performance of audits. See letters of KPMG LLP and Center for Audit Quality. The effect of the phrase, however, is not to authorize inspecting against arbitrary, unstated expectations but, rather, is to authorize inspecting for compliance with the Act, rules, and standards to the extent any such provisions apply in contexts related to audits of brokers and dealers.

^{16/} The temporary rule for an interim inspection program will take effect once the Commission approves the final temporary rule. Before later adopting any final rules for a permanent program of inspection, the Board would seek public comment on proposed rules for such a program. Final rules for a permanent program would take

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A. Scope of the Interim Program

The temporary rule that the Board proposed did not reflect any exercise of the Board's authority to differentiate among classes of brokers and dealers or to exempt any category of public accounting firm. The proposing release explained that judgments about what, if any, differentiation and exemptions were appropriate for a permanent program would be informed by, among other things, observations in the course of the interim program.

The Board received a number of comments addressing the inclusive scope of the proposed interim program.^{17/} Some commenters supported the proposed scope, while nevertheless suggesting that the Board focus its interim inspection efforts on audits of certain categories of brokers and dealers, such as those that have possession and control of customer cash and securities or act as clearing, carrying, or custodial brokers.^{18/} One of those commenters also suggested that the Board consider, in connection with a permanent program, whether the public interest would be best served by focusing on those that carry accounts and maintain customer cash and securities.^{19/}

Other commenters disagreed with the proposed approach. They argued, and some submitted data intended to support the argument, that certain categories of brokers and dealers pose little or no risk to the investing public. They suggested that the Board could identify those categories by focusing on factors such as whether the broker or dealer has custody of, or meaningful access to, client assets, or whether it is exclusively an introducing broker or dealer. These commenters suggested that the Board either should exempt the auditors of low-risk categories of firms from the Board's

effect only if separately approved by the Commission, a process that typically includes a separate round of public notice and comment.

^{17/} See Bachus-Garrett letter, letters from Certain Members of Congress, the American Institute of Certified Public Accountants, California Society of Certified Public Accountants, Center for Audit Quality, Chris Barnard (January 27, 2011), Grant Thornton LLP, KPMG LLP, National Association of Independent Broker Dealers, Third Party Marketers Association, and Financial Services Institute.

^{18/} See letters from the Center for Audit Quality, Chris Barnard, Grant Thornton LLP, and KPMG LLP.

^{19/} See letter from KPMG LLP.

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authority without delay^{20/} or should collect and study currently available data on the question before subjecting auditors of all brokers and dealers to an inspection program.^{21/} One commenter expressed concern that PCAOB regulation would significantly increase the cost of an audit to these entities, potentially forcing some of them out of business, with no corresponding contribution to meaningful protection of investors.^{22/} Other commenters similarly expressed concern that the costs of compliance with PCAOB regulation may negatively impact auditors of introducing brokers and dealers, which are typically small businesses.^{23/}

After considering these comments, the Board has decided to adopt a temporary rule for an interim program of the same scope as proposed. The inclusive scope of the interim program should not be construed as either foreshadowing the likely scope of a permanent program or suggesting that every broker or dealer auditor will be inspected as part of the interim program. The Board expects to be able to gather the information necessary to inform its consideration of a permanent program without having to inspect most firms during the interim program. The Board anticipates carefully considering whether there should be exemptions from the permanent program based on some of the characteristics highlighted by commenters and mentioned above and possibly other factors. For example, the Board expects to give consideration to whether a broker's or dealer's meaningful access to client assets is a relevant factor in determining the investor protection and public interest benefits of PCAOB oversight of the auditor of that broker or dealer. The Board continues to believe, however, that information gathered during the course of the interim program will be relevant to making appropriate judgments about that question and other significant elements of a permanent inspection program. While data of the type submitted by commenters who favor immediate exemptions will also be relevant to those judgments, the Board is not at the present time prepared to conclude that such data is the only type of information that will be relevant or that an analysis of all such data necessarily compels the exemptions urged by these commenters.

^{20/} See letters from the American Institute of Certified Public Accountants, National Association of Independent Brokers and Dealers, and Third Party Marketers Association.

^{21/} See letters from Certain Members of Congress and the Financial Services Institute.

^{22/} See letter from the Financial Services Institute.

^{23/} See Bachus-Garrett letter; letter from Certain Members of Congress.

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B. Nature and Focus of Procedures in the Interim Program

The substantive focus of inspection procedures under the temporary rule will be on compliance with applicable Board and Commission rules and professional standards. At this time, the standards that apply to audits of brokers and dealers have not changed from what they were before the Dodd-Frank amendments. The Commission has provided transitional guidance on this point, stating that "references in Commission rules and staff guidance and in the federal securities laws to GAAS [Generally Accepted Auditing Standards] or to specific standards under GAAS, as they relate to non-issuer brokers or dealers, should continue to be understood to mean auditing standards generally accepted in the United States of America, plus any applicable rules of the Commission."^{24/}

The Board recognizes that the applicable standards refer to the role of interpretive publications, including auditing guidance in Audit and Accounting Guides published by the American Institute of Certified Public Accountants ("AICPA"), and that the AICPA publishes an Audit and Accounting Guide on Brokers and Dealers in Securities. The standards state that such publications "are not auditing standards" but are "recommendations on the application of the [auditing standards] in specific circumstances, including engagements for entities in specialized industries."^{25/} The standards also provide, however, that the auditor "should be aware of and consider" applicable interpretive publications and that an auditor who does not apply the applicable interpretive guidance "should be prepared to explain how he or she complied with the [auditing standards] addressed by" the guidance.^{26/}

In assessing compliance during an interim inspection program, the Board will take appropriate account of the interpretive guidance and the fact that the current standards encourage reliance on the guidance. The Board anticipates that an important

^{24/} Exchange Act Rel. No. 62991 (September 24, 2010). The release includes a footnote, immediately following the phrase "auditing standards generally accepted in the United States of America" quoted above, that reads "Audit and attestation standards established by the AICPA." The release also notes that "[m]any parts of Commission rules and staff guidance related to obligations of brokers and dealers refer to GAAS and contain requirements for audits to be conducted in accordance with GAAS." *Id.* at 2 n.5 (citing, e.g., Rule 17a-5(g)(1) under the Exchange Act).

^{25/} Statement on Auditing Standards No. 98, AU § 150.05.

^{26/} Statement on Auditing Standards No. 95, AU § 150.06.

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benefit of an interim inspection program will be to afford the Board a broad view of what actual practice has been in light of the guidance.

In addition, the Board expects that the rules and standards governing broker-dealer audits will evolve during the interim inspection program. The requirement today for brokers and dealers to include audited financial statements in the annual reports they make with the Commission derives from Commission Rule 17a-5 under the Exchange Act, *Reports to be Made by Certain Brokers and Dealers* ("Rule 17a-5"). That rule requires, among other things, that the audit include a review of the accounting system, a review of the internal accounting control and procedures for safeguarding securities, and all 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.^{27/}

The Commission has announced its intention to propose amendments to update Rule 17a-5.^{28/}

The Board also has authority to establish, subject to approval by the Commission, professional standards and rules applicable to audits of brokers and dealers. The Board intends to adopt such standards, and related rules,^{29/} informed at

^{27/} See generally Letter of November 18, 2010, from Robert W. Cook, Director, Commission's Division of Trading and Markets, and James L. Kroeker, Chief Accountant, Commission's Office of the Chief Accountant, to AICPA Stockbrokerage and Investment Banking Expert Panel (available on the Commission's web site at <http://sec.gov/news/whatsnew/wn111810.shtml>).

^{28/} See Exchange Act Rel. No. 62991 (September 24, 2010).

^{29/} Current Board rules applicable to the conduct of audits are typically framed in terms of audits of issuers, either specifically or by incorporating other terms that are defined by reference to issuers. This should not be understood generally to

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least in part by information gathered early in the interim inspection program. In particular, the Board is evaluating whether to issue or amend auditing or attestation standards to provide specific procedures regarding the regulatory reports required under SEC Rule 17a-5, such as, among other things, the reports on internal accounting controls and on the procedures for safeguarding customer funds and securities, and the computation of net capital.^{30/} The Board anticipates that relevant PCAOB standards and rule amendments, if approved by the Commission to supplant the currently applicable standards, will eventually take effect for audits that will be subject to review as part of, though near the end of, the interim inspection program.

C. Processes Relating to Inspectors' Firm-Specific Observations

As with any Board inspection, the inspection procedures will involve PCAOB inspectors identifying audit deficiencies and bringing them to the firm's attention with the expectation that the firm will address the deficiencies and take steps to avoid future such deficiencies. The Board may report to the Commission and to certain other authorities (including the Financial Industry Regulatory Authority ("FINRA")) information suggesting violations of law or rules, including by brokers and dealers.^{31/} In addition, if appropriate, information obtained through the interim program may lead the Board to commence an investigation or disciplinary proceeding concerning the conduct of a registered public accounting firm or associated persons of such firms.^{32/}

mean, however, that none of the Board's current rules apply to registered public accounting firms that audit brokers or dealers. For example, firms that are registered with the Board solely because they audit brokers or dealers have the same obligations as issuer auditors to comply with Board rules on annual and special reporting (Rules 2200-2207).

^{30/} See Broker-Dealer Audit Considerations (PCAOB Staff Briefing Paper for the Board's Standing Advisory Group) (July 15, 2010) at 4 (available on the Board's web site at http://pcaobus.org/News/Events/Pages/07152010_SAGMeeting.aspx).

^{31/} See Section 104(c) of the Act and PCAOB Rule 4004; see also Sections 104(b)(4)(B)(ii) and 105(b)(5)(B)(ii)(V) of the Act.

^{32/} In connection with this point, Rule 4020T(b) provides that the terms "audit," "audit report," and "professional standards," when used in the Board's rules on investigation and adjudications or in Rule 3502 on contributing to violations, have the meaning provided in the amended definitions in Section 110 of the Act, rather than the meaning provided in the original definitions in the Act and PCAOB Rule 1001. This makes clear that the Board's enforcement rules – which encompass, among other things, "the provisions of the securities laws relating to the preparation and issuance of

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A few commenters requested clarification on how the Board will bring deficiencies to the firm's attention and what the Board's expectations would be for the firm to address the issues.^{33/} Two of those commenters suggested that the Board address that point in the text of the rule.^{34/}

The details of the process are subject to variation in light of circumstances in any inspection, but, in general, the Board anticipates that communications with firms will follow a course similar to that in inspections of auditors of issuers. That process is not the subject of a rule in the context of issuer audits, nor is it covered by Rule 4020T adopted today.

PCAOB inspectors may at any time discuss issues with the audit engagement team or other representatives of the firm. When PCAOB inspectors identify what appears to them to be a potentially significant issue, they typically describe their observations in a written comment provided to the firm. The firm then has an opportunity to respond in writing and describe its perspective on any aspect of the inspection observation. Firm responses to written comments are carefully considered and, depending upon the circumstances, may result in further dialogue to clarify issues.

In the issuer audit inspection context, this process culminates in a draft inspection report provided to the firm, followed by a final inspection report. In the absence of unusual circumstances, however, the interim program process will not include firm-specific inspection reports. Instead, in cases where a firm has provided written responses, inspection staff will provide the firm with feedback describing the inspection staff's views after having considered the response. The formality of that feedback may vary with the circumstances; but in any case in which the firm has provided a written response to a comment the firm will have an opportunity to discuss

audit reports and the obligations and liabilities of accountants with respect thereto" – encompass the obligations of auditors with respect to audit reports for brokers and dealers, such as those obligations are set out in Rule 17a-5. The Board intends separately to propose comprehensive conforming amendments to align all of its existing rules, including the definitions of terms, with the Dodd-Frank amendments.

^{33/} See letters from the Center for Audit Quality, McGladrey & Pullen, LLP, and KPMG LLP.

^{34/} See letters from the Center for Audit Quality and McGladrey & Pullen, LLP.

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with the inspection team the inspection team's view of the issues in light of the firm's response.^{35/}

The proposing release included references to the possibility of firm-specific inspection reports during the interim program.^{36/} Commenters sought clarification on what they saw as a tension between references to that possibility and the statement in the proposing release that the Board would expect results of inspection procedures performed under the interim program to be included in firm-specific reports, if at all, only after rules for a permanent program take effect.

The Board intends for inspection procedures performed on a firm as part of the interim program to constitute a foundational portion of the first inspection of the firm's audit practice related to brokers and dealers, which would be completed after a permanent program is established. This means that, for firms that audit brokers or dealers but not issuers, the Board does not expect to issue a firm-specific inspection report unless and until a permanent program replaces the interim program, the firm is included in the scope of the permanent program, and the firm has been inspected under the permanent program.^{37/} Unusual circumstances, however, could give rise to

^{35/} As in the case of inspection observations that appear in inspection reports, the Board would expect a firm to respond to such notice of an apparent audit deficiency by assessing the firm's present ability to support its previously expressed opinion (including performing additional procedures if necessary) and taking appropriate action in accordance with standards and rules if the firm determines that it cannot support its previously expressed opinion. To the extent that inspection observations suggest potential defects in a firm's system of quality control, the Board expects that a firm would take the initiative to improve its quality control policies and procedures, even in the absence of a firm-specific inspection report (and the corresponding inapplicability of PCAOB Rule 4009).

^{36/} The proposing release stated that nothing in the temporary rule "would necessarily preclude the Board from issuing a firm-specific inspection report on, or including, inspection observations from the interim program before a permanent program takes effect." Proposing release at 11, n.21. The proposing release also noted that inspection procedures performed in the interim program would be carried out in accordance with, and subject to, the provisions of Section 104 of the Act, including provisions concerning a firm's opportunities to respond to a draft inspection report and to seek Commission review of certain matters in a final inspection. See proposing release at 6, n.10.

^{37/} While the interim program is in place, a Board inspection of a firm that performs audit work for issuers and for brokers or dealers would include the full, regular

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exceptions. As a precaution in light of that possibility, the Board has incorporated in the final version of Rule 4020T the provisions of PCAOB Rule 4007, Procedures Concerning Draft Inspection Reports, PCAOB Rule 4008, Procedures Concerning Final Inspection Reports, and PCAOB Rule 4009, Firm Response to Quality Control Defects.^{38/}

Commenters expressed concern about including observations from the interim inspection program in a firm-specific inspection report that may be issued years later, after the permanent program is established and after the relevant standards and rules, as well as the firm's practices, may have changed. The commenters urged the Board to reconsider including observations from interim program procedures in the first firm-specific report.^{39/} These commenters also requested clarification on whether the eventual report would present cumulative findings or deficiencies observed.

During the interim program, the Board will be obtaining a broad view of practice related to audits of brokers and dealers under current standards and interpretive guidance, and at the same time the standards and rules applicable to the audits will be evolving. Having both that broad view and the new standards as a foundation will be helpful to making consistent and meaningful evaluations of the types of quality control issues that, going forward, firms need to address in their practices related to audits of brokers and dealers. It is possible that observations from interim program procedures will be relevant to the Board's inspection-related dialogue with a particular firm – though not necessarily with every firm – even after standards and rules have changed, and it

inspection – including the firm-specific inspection report – of the firm's issuer practice. Such an inspection could also include inspection procedures under the interim program with respect to the firm's broker and dealer practice. As with firms that audit brokers or dealers but not issuers, the Board, absent unusual circumstances, would not incorporate any evaluation of the firm's broker and dealer practice into the public portion of a firm-specific report before the report on the first inspection of the firm that occurs after a permanent program takes effect and would not include observations from the interim program procedures in the nonpublic portion of any such report.

^{38/} Rule 4007 was not incorporated in the version of Rule 4020T that the Board proposed, and commenters noted the discrepancy between the omission of a provision incorporating Rule 4007 and the proposing release's references to the possibility of firm-specific inspection reports. To fully address that discrepancy, the Board has also incorporated Rules 4008 and 4009 in the final version of Rule 4020T.

^{39/} See letters from the Center for Audit Quality, McGladrey & Pullen, LLP, and KPMG LLP.

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may be appropriate for aspects of those observations to be included in the first inspection report that addresses the firm's audit practice related to audits of brokers and dealers. The Board does not contemplate that firms' first reports will routinely serve as historical records of all observations from interim program procedures. Depending on the circumstances, however, aspects of some observations may retain their relevance to an assessment of audit quality issues at a particular firm even at the time of the first report, and those aspects may be discussed in a report. If that occurs, the Board intends that the report will make clear the timing of the original inspection observation at issue.

D. General Reports During the Inspection Period

The temporary rule provides that the Board will publish a report on the interim program no less frequently than every twelve months, beginning twelve months after the date the rule takes effect and continuing until rules for a permanent program take effect. Each report will describe the progress of the interim program and any significant observations that either may bear on the Board's consideration of a permanent program or the publication of which may otherwise be appropriate to protect the interests of investors or to further the public interest. As is typical of Board inspection reports, consistent with restrictions imposed by the Act,^{40/} the reports will not identify brokers or dealers the audits of which are the subject of observations described in the report. As is also typical of general Board reports collecting observations from numerous inspections, the reports will not identify the registered public accounting firm or firms to which the observations relate.

Commenters supported the Board's proposal to publish a report at least annually on the progress of the interim inspection program.^{41/} Some commenters suggested that the Board include in the report sufficient details on the nature and types of brokers and dealers inspected and group the inspection observations based on these classifications to help public accounting firms understand the specific issues identified in the report.^{42/} The Board will take those suggestions into consideration when preparing the progress reports.

^{40/} See Section 105(b)(5)(A) of the Act; See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004) ("Statement Concerning Inspection Reports") at 4-6.

^{41/} See letters from Center for Audit Quality, Grant Thornton LLP, and KPMG LLP.

^{42/} See letters from the Center for Audit Quality and KPMG LLP.

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E. Voluntary Cooperation

When Rule 4020T takes effect, cooperation with Board inspection procedures under the interim program will be mandatory for registered firms and their associated persons. The proposing release also noted, however, that even before the rule takes effect, the Board might conduct relevant procedures with the voluntary cooperation of certain firms. Two commenters inquired about the Board's expectations for voluntary cooperation.^{43/} Specifically, commenters sought clarification on whether the procedures with which the Board may request voluntary cooperation would include actual inspections of audits of brokers and dealers or be limited in scope. These commenters also requested information on the timing of the voluntary cooperation and the identity of registered public accounting firms expected to cooperate voluntarily.

The proposing release was not alluding to any expectation for particular firms to cooperate voluntarily, or to a view that there is a particular scope of procedures to which firms should voluntarily consent. The Board's ongoing inspections of auditors of issuers include inspections of some firms that audit brokers and dealers in addition to issuers. During regular inspections of any such firm's issuer audit practice before Rule 4020T takes effect, inspection staff may discuss with the firm the possibility of the firm submitting voluntarily to inspection procedures concerning its audit practice related to brokers and dealers. The Board does not contemplate discussing the possibility of voluntary cooperation with any firm that the Board is not otherwise inspecting because of the firm's issuer audit practice.

F. Duration of the Interim Program

If the Commission approves Rule 4020T, the Board anticipates carrying out procedures under the interim program until rules for a permanent program take effect. The Board anticipates being in a position to propose rules for a permanent program by 2013.

^{43/} See the letters from the Center for Audit Quality and KPMG LLP.

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On the 14th day of June, in the year 2011, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ J. Gordon Seymour

J. Gordon Seymour
Secretary

June 14, 2011

Appendix –

Amendments to Board Rules

Appendix – Amendments to Board Rules

The Board amends Section 1 of its rules by adding notes following Rules 1001(a)(v), 1001(a)(vi), and 1001(p)(vi), and Section 4 of its rules by adding Rule 4020T. The text of the notes and Rule is set out below.

RULES OF THE BOARD

SECTION 1. GENERAL PROVISIONS

* * *

Rule 1001. Definitions of Terms Employed in Rules

* * *

(a)(v) Audit

* * *

Note: Effective [insert effective date of Rule 4020T], pursuant to Rule 4020T, when used in Rule 3502, Section 5 of the Rules of the Board, or the definition of "disciplinary proceeding" in Rule 1001(d)(i), the term "audit" has the meaning provided in Section 110 of the Act.

(a)(vi) Audit Report

* * *

Note: Effective [insert effective date of Rule 4020T], pursuant to Rule 4020T, when used in Rule 3502, Section 5 of the Rules of the Board, or the definition of "disciplinary proceeding" in Rule 1001(d)(i), the term "audit report" has the meaning provided in Section 110 of the Act.

* * *

(p)(vi) Professional Standards

* * *

Note: Effective [insert effective date of Rule 4020T], pursuant to Rule 4020T, when used in Rule 3502, Section 5 of the Rules of the Board, or the definition of "disciplinary proceeding" in Rule 1001(d)(i), the term "professional standards" has the meaning provided in Section 110 of the Act.

* * *

SECTION 4. INSPECTIONS

* * *

Rule 4020T. Interim Inspection Program Related to Audits of Brokers and Dealers

(a) Purposes of Interim Inspection Program

This rule provides for an interim program of inspection in connection with audits of brokers and dealers in order, among other things –

(1) to assess the degree of compliance of registered public accounting firms and their associated persons with the Act, the Board's rules, the Commission's rules, and professional standards in connection with the performance of audits, issuance of audit reports, and related matters involving brokers and dealers;

(2) to inform the Board's consideration, in connection with establishing a permanent program of inspection to assess the matters described in paragraph (1), of –

- (i) whether to differentiate among classes of brokers and dealers;
- (ii) whether to exempt any category of public accounting firms; and
- (iii) the establishment of minimum inspection frequency schedules.

(b) Definitions

When used in this rule, the term "interim program," means the interim program of inspection described in paragraph (c). When used in this rule, Rule 3502, Section 5 of the Rules of the Board, or the definition of "disciplinary proceeding" in Rule 1001(d)(i), the terms "audit," "audit report," and "professional standards" have the meaning provided in Section 110 of the Act.

(c) Interim Program of Inspection

On an interim basis, the Board shall conduct a program of inspection, for the purposes described in paragraph (a), that may include inspection procedures to assess the policies, practices, and procedures of any registered public accounting firm related to the performance of audits or the issuance of audit reports for any broker or dealer after July 21, 2010 and related matters involving brokers and dealers. The provisions of

Rules 4000(b), 4000(c), 4004, 4006, 4007, 4008, 4009 and 4010 shall apply to the interim program.

(d) Reporting

No less frequently than every twelve months, beginning twelve months after the date this rule takes effect and continuing until rules for a permanent program of inspection in connection with audits of brokers and dealers take effect, the Board will publish a report that describes the progress of the interim program, including data about the number of registered public accounting firms and the number of broker or dealer audits that have been subjected to inspection procedures and any significant observations from those procedures.