



PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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BRIEFING PAPER

PROPOSED AUDITOR REGISTRATION SYSTEM

MARCH 4, 2003 PUBLIC MEETING OF THE BOARD

At its public meeting on March 4, 2003, the Public Company Accounting Oversight Board ("Board") will consider whether to propose, and seek comment on, a registration system for public accounting firms. Section 102 of the Sarbanes-Oxley Act of 2002 (the "Act") prohibits persons that are not registered with the Board from preparing or issuing audit reports on U.S. public companies (i.e., "issuers", as defined in the Act) and from participating in such audits. Firms must register with the Board if they wish to engage in these activities after the 180-day period following the Commission's determination that the Board has the capacity to carry out the requirements of the Act. That determination must be made no later than April 26, 2003.

The proposed registration system consists of nine rules (PCAOB Rules 1000, 1001, 2100 through 2105, and 2300) and a form (PCAOB Form 1). In addition, the Board will consider whether to issue a public release discussing the registration system and announcing a roundtable concerning the operation of the registration system with respect to foreign public accounting firms.

Content of Proposed Rules and Forms

Appended to this paper are (1) a list of the titles of the nine registration-related rules, and (2) an outline of the instructions to PCAOB Form 1 (Application for Registration as a Public Accounting Firm). Set forth below are an overview of the

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proposed registration system and a list of some of the issues discussed in the release with respect to foreign public accounting firms.

A. Overview of the Proposed Registration System

- All public accounting firms that wish to prepare or issue audit reports on U.S. public companies must register with the Board. In addition, any public accounting firm that “plays a substantial role in the preparation and furnishing of an audit report” (as defined in the Board’s rules) must register.
- While the definition of “public accounting firm” includes sole proprietorships, individual accountants that are associated with firms are not required to register. However, firms are required, as part of their registration application, to disclose the names of all accountants associated with the firm.
- The Board will propose instructions for its registration form (Form 1). However, the form itself will be web-enabled and available only electronically. Applications for registration must be submitted via the internet.
- Form 1 consists of ten parts, subdivided into 29 items requiring the disclosure of particular information concerning the applicant and its associated accountants and the applicant’s issuer clients. The information these items call for is, in general, required by Section 102(b) of the Act.
- Applications for registration will be available to the public in accordance with Section 102(e) of the Act. The Board will not, however, disclose social security or taxpayer identification numbers (or equivalent foreign identifiers.)
- Applicants may request confidential treatment of any other portion of an application that contains non-public personal or proprietary information. The Board will decide whether to grant confidential treatment requests on a case-by-case basis.
- Applicants for registration must pay a fee to cover the costs of processing and reviewing applications. The Board has not yet established the level of the

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registration fee, and anticipates doing so in conjunction with the establishment of its annual budget. The Board will publicly announce the fee amount, and the payment procedure, before the registration system is operational. The Board contemplates that the amount of an applicant's fee will be determined by a formula and that registration fees will vary with the size of the applicant.

- As provided in Section 102(c) of the Act, within 45 days of receipt of a completed registration application, the Board must (1) approve the application, (2) issue a written notice of disapproval, or (3) request more information from the prospective registrant.
- The Board's registration system is expected to be ready to receive registration applications in late June or early July, 2003. As noted above, public accounting firms must be registered with the Board if they wish to engage in issuer audits after the end of the 180-day period following the Commission's determination that the Board has the capacity to carry out the requirements of the Act. This period will end approximately October 24, 2003. In light of the 45-day review period, such firms' registration applications will have to be filed by, at the latest, early September. The Board recommends that these firms begin to compile the information necessary to complete Form 1 as soon as possible.

The Act requires that registered public accounting firms file annual reports with the Board, and authorizes the Board to require periodic updating of the information contained in a registered firm's registration application. The Board will consider rules and forms to implement these provisions of the Act at a later date. The Board may in the future also consider rules and forms governing the amendment or withdrawal of pending registration applications and withdrawal from registration after approval of a registration application.

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B. Registration of Foreign Public Accounting Firms

The Board's proposal does not exempt non-U.S. public accounting firms from registration. The Board's registration rules require registration of all public accounting firms that prepare or issue audit reports with respect to issuers, and of all public accounting firms that play a substantial role in the preparation and furnishing of such audit reports, regardless of the jurisdiction in which the firm operates.

The Board recognizes that the registration of non-U.S. firms may raise special issues. Over the course of the next months, the Board intends to consider the appropriate scope of its oversight authority with respect to accounting firms located outside the United States. To this end, the Board will convene a public roundtable concerning the registration of foreign public accounting firms. At the roundtable, or by written comment, the Board seeks the views of interested persons on whether its registration requirements should be modified in the case of foreign applicants and on how it should exercise its authority with respect to registered foreign public accounting firms. The date, place, and format of that roundtable will be the subject of a separate release.

With regard to the registration process, commenters will be invited to address the following questions --

- Is it feasible for foreign public accounting firms to register within 180 days of the date of the Commission's determination that the Board is capable of operating? Should foreign public accounting firms be afforded some longer period (e.g., an additional 90 days) within which to register?
- Are there any portions of Form 1 that are inapplicable, or that should be modified, in the case of non-U.S. applicants?
- In addition to the information required by Form 1, is there any additional information that should be sought from non-U.S. applicants?

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- Do any of the Board's registration requirements conflict with the law of any jurisdiction in which foreign public accounting firms that will be required to register are located?
- In the case of non-U.S. firms that are required to register because they play a substantial role in the preparation and furnishing of an audit report on a U.S. issuer, is the Board's definition of "substantial role" appropriate?
- Should the requirements to register be different for foreign public accounting firms that are "associated entities" (as defined in the Board's rules) of U.S. registered public accounting firms than for foreign firms that are not associated with U.S. registered firms?

With regard to Board oversight of foreign registered public accounting firms, commenters will be invited to address the following questions --

- Should registered foreign public accounting firms be subject to Board inspection? Could the Board, in some cases, rely on home-country regulation in lieu of inspection of foreign public accounting firms? If so, under what circumstances could this occur?
- Aside from Board inspection, are there other requirements of the Act from which foreign public accounting firms should be exempted? If so, under what circumstances?
- Are there requirements different from those the Act imposes on all registered public accounting firms that the Board should apply to foreign public accounting firms?
- Should the Board's oversight of foreign registered public accounting firms that are "associated entities" (as defined in the Board's rules) of U.S. registered public accounting firms be different than its oversight of foreign public accounting firms that are not associated entities of U.S. registered firms? Should the U.S. registered firm have any responsibility for the foreign registered firm's compliance with the Board's rules and standards?

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Public Comment

Interested persons will be afforded an opportunity to express their views regarding the Board's proposed registration system. Because of the limited time available before the registration system must be operational, written comments must be received by the Board prior to the close of business on Monday, March 31, 2003. The release announcing the Board's proposal will contain detailed information concerning the submission of comments. In addition, as set forth above, the Board intends to convene a public roundtable concerning the registration of foreign public accounting firms.

The Board will carefully consider all comments concerning the registration system that are submitted either in writing or at the roundtable. Following the close of the comment period, the Board will determine whether to amend its proposals, will adopt final registration rules, and will submit those rules to the Securities and Exchange Commission for approval. Pursuant to Section 107 of the Act, Board rules do not take effect unless and until approved by the Commission.

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The PCAOB is a private-sector, non-profit corporation, created by the Sarbanes-Oxley Act of 2002. Its mission is to protect investors in the U.S. securities markets and to further the public interest by ensuring that public company financial statements are audited according to the highest standards of quality, independence, and ethics. The Board will be principally funded by fees collected from public companies. The costs of processing and reviewing public accounting firm registration applications will be recovered from registration fees paid by those firms.

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APPENDIX

(1) List of Proposed Registration-Related Rules.

Rule 1000 -- Application of Rules

Rule 1001 -- Definition of Terms Employed in Rules

Rule 2100 -- Registration Requirements for Public Accounting Firms

Rule 2101 -- Application for Registration

Rule 2102 -- Date of Receipt

Rule 2103 -- Registration Fee

Rule 2104 -- Signatures

Rule 2105 -- Action on Applications for Registration

Rule 2300 -- Public Availability of Information Submitted to the Board; Confidential Treatment Requests

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(2) Outline of the Proposed Requirements of PCAOB Form 1 (Application for Registration as a Public Accounting Firm).

General Instructions

[There are seven general instructions to Form 1.]

Part I -- Identity of the Applicant

[This part contains eight items.]

Part II -- Listing of Applicant's Public Company Audit Clients and Related Fees

[This part contains four items.]

Part III -- Applicant Financial Information

[This part contains one item.]

Part IV -- Statement of Applicant's Quality Control Policies

[This part contains one item.]

Part V -- Listing of Certain Proceedings Involving the Applicant's Audit Practice

[This part contains six items.]

Part VI -- Listing of Filings Disclosing Accounting Disagreements With Public Company Audit Clients

[This part contains three items.]

Part VII -- Roster of Associated Accountants

[This part contains three items.]

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Part VIII -- Consents of Applicant

[This part contains one item.]

Part IX -- Signature of Applicant

[This part contains one item.]

Part X -- Exhibits

[This part contains six exhibits.]