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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-71524; File No. PCAOB-2013-01]

### Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules, Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards

February 12, 2014.

#### I. Introduction

On October 30, 2013, the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") filed with the Securities and Exchange Commission (the "Commission"), pursuant to Section 107(b)<sup>1</sup> of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and Section 19(b)<sup>2</sup> of the Securities Exchange Act of 1934 (the "Exchange Act"), proposed rules to adopt standards for attestation engagements related to broker and dealer compliance or exemption reports required by the U.S. Securities and Exchange Commission and related amendments to PCAOB standards (collectively, the "Proposed Rules"). The Proposed Rules were published for comment in the *Federal Register* on November 15, 2013.<sup>3</sup> At the time the notice was issued, the Commission designated a longer period to act on the Proposed Rules, until February 13, 2014.<sup>4</sup> The Commission received two comment letters in response to the notice.<sup>5</sup> This order approves the Proposed Rules.

#### II. Description of the Proposed Rules

Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, establishes requirements for the auditor with respect to the auditor's examination regarding a broker's or dealer's compliance report and establishes requirements that are designed specifically for the

examination required by Exchange Act Rule 17a-5 ("Rule 17a-5").<sup>6</sup> Consistent with Rule 17a-5, Attestation Standard No. 1 requires auditors to obtain sufficient appropriate evidence to opine on a broker's or dealer's statements in its compliance report as to whether:

- The Internal Control Over Compliance of the broker or dealer was effective during the most recent fiscal year;
- The Internal Control Over Compliance of the broker or dealer was effective as of the end of the most recent fiscal year;
- The broker or dealer was in compliance with Exchange Act Rule 15c3-1<sup>7</sup> (the "net capital rule") and Exchange Act Rule 15c3-3(e)<sup>8</sup> (the "reserve requirements rule") as of the end of the most recent fiscal year; and
- The information the broker or dealer used to state whether it was in compliance with the net capital rule and reserve requirements rule was derived from the books and records of the broker or dealer.<sup>9</sup>

Attestation Standard No. 1 provides requirements for auditors that:

- Focus the auditor on the matters that are most important to the auditor's conclusions regarding the broker's or dealer's assertions;
- Incorporate consideration of fraud risks, including the risk of misappropriation of customer assets;
- Are designed to be scalable based on the broker's or dealer's size and complexity;
- Coordinate the examination engagement with the audit of the financial statements and the audit procedures performed on supplemental information; and
- Describe how to report on an examination engagement in connection with the requirements of Rule 17a-5.

Attestation Standard No. 1 reflects the requirement in Rule 17a-5 that the auditor must obtain reasonable assurance to support the auditor's opinion. In particular, Attestation Standard No. 1 requires the auditor to obtain reasonable assurance in order to opine on whether the broker's or dealer's assertions are fairly stated, in all material respects.

Attestation Standard No. 2 establishes requirements for the auditor with respect to the auditor's review regarding the broker's or dealer's exemption report and establishes requirements that are designed specifically for the review

required by Rule 17a-5.<sup>10</sup> Attestation Standard No. 2 establishes requirements for making inquiries and performing other procedures that are commensurate with the auditor's responsibility to obtain moderate assurance regarding whether one or more conditions exist that would cause one or more of the broker's or dealer's assertions not to be fairly stated, in all material respects. The broker's or dealer's exemption report includes the following assertions:

- A statement that identifies the provisions in paragraph (k) of Exchange Act Rule 15c3-3 (the "exemption provisions") under which the broker or dealer claimed an exemption from Exchange Act Rule 15c3-3 (the "identified exemption provisions");
- A statement that the broker or dealer (1) met the identified exemption provisions throughout the most recent fiscal year without exception or (2) met the identified exemption provisions throughout the most recent fiscal year except as described in the exemption report; and
- If applicable, a statement that identifies each exception during the most recent fiscal year in meeting the identified exemption provisions (an "exception") and that briefly describes the nature of each exception and the approximate date(s) on which the exceptions existed.<sup>11</sup>

The procedures required by Attestation Standard No. 2 include evaluating relevant evidence obtained from the audit of the financial statements and the audit procedures performed on supplemental information and are designed to enable the auditor to scale the review engagement based on the broker's or dealer's size and complexity. Attestation Standard No. 2 also establishes requirements for the content of the review report.

As part of the Proposed Rules, the Board adopted conforming amendments to several PCAOB auditing and attestation standards, including Auditing Standard No. 3, *Audit Documentation*, Auditing Standard No. 7, *Engagement Quality Review*, and interim attestation standards AT sec. 101 and AT sec. 601.

The Proposed Rules would be effective for examination engagements and review engagements for fiscal years ending on or after June 1, 2014.

#### III. Comment Letters

As noted above, the Commission received two comment letters concerning the Proposed Rules. The commenters expressed support for the

<sup>1</sup> 15 U.S.C. 7217(b).

<sup>2</sup> 15 U.S.C. 78s(b).

<sup>3</sup> See Release No. 34-70842 (November 8, 2013), 78 FR 68911 (November 15, 2013).

<sup>4</sup> *Ibid.*

<sup>5</sup> See letters to the Commission from Deloitte & Touche LLP, dated December 5, 2013 ("Deloitte Letter") and Suzanne H. Shatto, dated December 17, 2013 ("Shatto Letter").

<sup>6</sup> 17 CFR 240.17a-5.

<sup>7</sup> 17 CFR 240.15c3-1.

<sup>8</sup> 17 CFR 240.15c3-3(e).

<sup>9</sup> See paragraphs (d)(3)(i)(A)(2)-(5) of SEC Rule 17a-5.

<sup>10</sup> See 17 CFR 240.17a-5(g)(2)(ii).

<sup>11</sup> See SEC Rule 17a-5(d)(4).

Proposed Rules, with one commenter noting that they are consistent with the Commission's amended Rule 17a-5 and are necessary to enable auditors of brokers and dealers to comply with the requirements therein.<sup>12</sup>

#### IV. Conclusion

The Commission has carefully reviewed and considered the Proposed Rules and the information submitted therewith by the PCAOB, including the comment letters received. In connection with the PCAOB's filing and the Commission's review, the Commission finds that the Proposed Rules are consistent with the requirements of the Sarbanes-Oxley Act and the securities laws and are necessary or appropriate in the public interest or for the protection of investors.<sup>13</sup>

It is therefore ordered, pursuant to Section 107 of the Act and Section 19(b)(2) of the Exchange Act, that the Proposed Rules (File No. PCAOB-2013-01) be and hereby are approved.

By the Commission.

**Kevin M. O'Neill,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-71525; File No. PCAOB-2013-02]

### Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules, Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, and Related Amendments to PCAOB Standards

February 12, 2014.

#### I. Introduction

On October 30, 2013, the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") filed with the Securities and Exchange Commission (the "Commission"), pursuant to Section 107(b)<sup>1</sup> of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and Section 19(b)<sup>2</sup> of the Securities Exchange Act of 1934 (the "Exchange Act"), proposed rules to adopt Auditing Standard No. 17, *Auditing Supplemental Information*

*Accompanying Audited Financial Statements*, and related amendments to PCAOB standards (collectively, the "Proposed Rules"). The Proposed Rules were published for comment in the **Federal Register** on November 15, 2013.<sup>3</sup> At the time the notice was issued, the Commission designated a longer period to act on the Proposed Rules, until February 13, 2014.<sup>4</sup> The Commission received one comment letter in response to the notice.<sup>5</sup> This order approves the Proposed Rules.

#### II. Description of the Proposed Rules

Auditing Standard No. 17, which would supersede PCAOB interim auditing standard AU section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, applies when the auditor of the company's financial statements is engaged to perform audit procedures and report on supplemental information that accompanies financial statements audited pursuant to PCAOB standards. Such supplemental information includes:

- Supporting schedules that brokers and dealers are required to file pursuant to Exchange Act Rule 17a-5;<sup>6</sup>
- Supplemental information (i) required to be presented pursuant to the rules and regulations of a regulatory authority and (ii) covered by an independent public accountant's report on that information in relation to financial statements that are audited in accordance with PCAOB standards; or
- Information that is (i) ancillary to the audited financial statements, (ii) derived from the company's accounting books and records, and (iii) covered by an independent public accountant's report on that information in relation to the financial statements that are audited in accordance with PCAOB standards.

Historically, when auditors reported on supplemental information, they often expressed their opinions on the supplemental information "in relation to" the basic financial statements taken as a whole.<sup>7</sup> Audit procedures regarding that supplemental information generally have been performed in conjunction with the audit of the financial statements. The auditor's report on supplemental information under AU sec. 551 is rooted in the concept that the supplemental information is fairly

presented "in relation to" the financial statements as a whole. The Proposed Rules retain the existing "in relation to" language in the auditor's report; however, they also update the report to describe the auditor's responsibilities for the supplemental information.

The Proposed Rules establish procedural and reporting responsibilities for the auditor regarding supplemental information accompanying financial statements. Specifically, the Proposed Rules establish:

- Requirements that the auditor perform audit procedures to test the supplemental information;
- Requirements that the auditor evaluate the supplemental information, which include evaluating (1) whether the supplemental information, including its form and content, is fairly stated, in all material respects, in relation to the financial statements as a whole, and (2) whether the supplemental information is presented in conformity, in all material respects, with the relevant regulatory requirements or other applicable criteria;
- Requirements that promote enhanced coordination between the work performed on the supplemental information with work performed on the financial statement audit and, if applicable, other engagements, such as an attestation engagement for brokers and dealers; and
- Reporting requirements that clearly articulate the auditor's responsibilities when reporting on supplemental information.

As part of the Proposed Rules, the Board adopted conforming amendments to several PCAOB standards, including superseding PCAOB interim auditing standard AU section 551.

The Proposed Rules would be effective for audit procedures and reports on supplemental information that accompanies financial statements for fiscal years ending on or after June 1, 2014.

#### III. Comment Letters

As noted above, the Commission received one comment letter concerning the Proposed Rules. The commenter expressed unqualified support for the Proposed Rules, noting that they are consistent with the Commission's amended Rule 17a-5 and are necessary to enable auditors of brokers and dealers to comply with the requirements therein.<sup>8</sup> The commenter further noted that the requirements for auditors included in the Proposed Rules are

<sup>12</sup> See Deloitte Letter.

<sup>13</sup> Because these proposed rules apply solely in connection with the obligations of registered brokers and dealers pursuant to 17 CFR 240.17a-5, no separate determination is necessary under 15 U.S.C. 7213(a)(3)(C).

<sup>1</sup> 15 U.S.C. 7217(b).

<sup>2</sup> 15 U.S.C. 78s(b).

<sup>3</sup> See Release No. 34-70843 (November 8, 2013), 78 FR 68872 (November 15, 2013).

<sup>4</sup> *Ibid.*

<sup>5</sup> See letter to the Commission from Deloitte & Touche LLP, dated December 5, 2013 ("Deloitte Letter").

<sup>6</sup> See 17 CFR 240.17a-5.

<sup>7</sup> See AU sec. 551.12.

<sup>8</sup> See Deloitte Letter.