

SEC Approves Audit Transparency Rules

On May 9, 2016, the Securities and Exchange Commission (the “Commission”) approved rules adopted by the Public Company Accounting Oversight Board (the “PCAOB”) in December 2015, designed to promote transparency and accountability for the main participants in public company audits.¹

The final rules require registered public accounting firms, for each audit report that is issued for an issuer (including an “emerging growth company”), to file a report on a new PCAOB Form AP (*Auditor Reporting of Certain Audit Participants*) that identifies:

- (1) the name and ten-digit identifying number of the engagement partner;
- (2) for each other accounting firm participating in the audit whose contribution amounted to 5% or more of total audit hours, the name, location and Firm ID (when applicable) of, and the percentage of total audit hours attributable to, such firm; and
- (3) the number of other accounting firms participating in the audit whose individual contribution was less than 5% of total audit hours, and the aggregate percentage of total audit hours of such firms.²

The PCAOB established a basic filing deadline of 35 days after the date the auditor’s report is first included in a document filed with the Commission, but a shorter period of 10 days applies if the report is included in a document filed in connection with an initial public offering.³ Firms will be expected to file Form AP through the PCAOB’s existing web-based Registration, Annual, and Special Reporting system.⁴ Information furnished on Form AP will be consolidated and made available to the general public in a searchable database accessible through the PCAOB’s website.⁵

¹ Order Granting Approval of Proposed Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form and Related Amendments to Auditing Standards, Exchange Act Release No. 77,787 (May 9, 2016), available at <https://www.sec.gov/rules/pcaob/2016/34-77787.pdf> (the “Order”).

² *Id.* at 2-3. The Commission also approved certain amendments to auditing standards that allow firms to voluntarily provide this information in the auditor’s report, although such disclosure would not satisfy the obligation to publish the required information on Form AP.

³ *Fact Sheet: Disclosure of Engagement Partner and Certain Other Participants on New PCAOB Form AP*, Public Company Accounting Oversight Board (Dec. 15, 2015), <http://pcaobus.org/News/Releases/Pages/transparency-adoption-fact-sheet-12-15-15.aspx>.

⁴ *Id.*

⁵ *PCAOB Rules to Improve Transparency by Disclosing Engagement Partner Name and Information about Other Audit Firms are Approved by SEC*, Public Company Accounting Oversight Board (May 10, 2016), <http://pcaobus.org/News/Releases/Pages/SEC-approves-transparency-Form-AP-051016.aspx>.

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The new rules take effect in two phases. The disclosure requirement for the engagement partner is effective for audit reports issued on or after January 31, 2017. The disclosure requirement with respect to contributing accounting firms is effective for audit reports issued on or after June 30, 2017.⁶ The PCAOB reiterated its intention to publish staff guidance and other tools for audit firms to reference when implementing the new rules.

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If you have any questions about the issues addressed in this memorandum or if you would like a copy of any of the materials mentioned, please do not hesitate to call or email Charles A. Gilman at 212.701.3403 or cgilman@cahill.com; Jon Mark at 212.701.3100 or jmark@cahill.com; John Schuster at 212.701.3323 or jschuster@cahill.com; or Tyler A. O'Reilly at +44.20.7920.9819 or toreilly@cahill.com.

⁶ *Id.*