



PCAOB Issues for Comment Proposed Guidance Regarding the Implementation of PCAOB Rule 4012

(Inspections of Foreign Registered Public Accounting Firms)

Washington, DC, December 5, 2007 – The Public Company Accounting Oversight Board (PCAOB) today voted to issue for public comment a proposed policy statement that identifies the factors relevant to “full reliance” by the Board on the inspections systems of its non-U.S. counterparts that are sufficiently rigorous to meet the level of protection for investors that is required by the Sarbanes-Oxley Act of 2002.

“The PCAOB recognizes that cross-border cooperation is fundamental to strengthening audit quality globally. The policy statement provides the architecture for the PCAOB to increase its reliance on the inspections of foreign counterparts, including our colleagues in the European Union,” said PCAOB Chairman Mark W. Olson.

The proposed policy statement provides guidance on the Board’s **Rule 4012** (*Inspections of Foreign Registered Public Accounting Firms*), which permits the Board to adjust its reliance on the inspections of auditor oversight entities located in the home countries of registered non-U.S. audit firms, based upon the level of independence and rigor of those entities.

Consistent with Rule 4012, the Board has relied to a certain extent on auditor oversight entities in several jurisdictions over the past three years. During this time, it has observed an evolution in auditor oversight around the world to include shared objectives with the PCAOB, such as investor protection, improved audit quality, and effective oversight of firms.

The Board believes it is the appropriate time to consider increasing its level of reliance on non-U.S. oversight systems where possible. The proposed policy statement, “**Guidance Regarding Implementation of PCAOB Rule 4012**,” articulates certain essential criteria that further define the principles set forth in Rule 4012. If the criteria are met, the Board may place full reliance on the inspections programs of qualified non-U.S. auditor oversight entities. The Board seeks public comment on the criteria and the approach described in the policy statement.

“The PCAOB is working with other independent auditor oversight entities around the world to take steps to deepen our relationships as a means to strengthen auditor oversight,” said Rhonda Schnare, PCAOB Director of International Affairs.

If adopted, the policy statement would be implemented through bilateral arrangements which would set forth the anticipated progression toward full reliance.

Rule 4012 sets out five broad principles to guide the Board in making a reliance determination. These principles form the basis for the criteria outlined in today’s proposal:

- *Adequacy and integrity of the oversight system* – The Board would weigh whether the non-U.S. system effectively works in the public interest to protect investors by seeking to improve audit quality.
- *Independent operation of the oversight system*: The Board would weigh whether the entity and the system within which it operates are free from interference or undue influence by the audit practitioners and/or audit firms under the entity’s supervision.
- *Independence of the system’s source of funding*: The Board would weigh whether the non-U.S. system has the ability to obtain and deploy the financial resources necessary to carry out its mandate without interference or undue influence by the audit practitioners and/or audit firms under its supervision.
- *Transparency of the system*: The Board would weigh the extent to which the entity is accountable for the discharge of its duties through a transparent framework. The Board would review whether the entity publicly discloses information on its structure, governance, policies and operations.
- *System’s historical performance*: The Board would weigh whether the non-U.S. oversight entity or the system within which it operates has a record of adequate disciplinary proceedings and appropriate sanctions.

Comments are requested by March 4, 2008.

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The PCAOB is a private-sector, nonprofit corporation, created by the Sarbanes-Oxley Act of 2002, to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.