PCAOB
Public Company Accounting Oversight Board

1666 K Street, NW
Washington, D.C. 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

IMPROVING THE TRANSPARENCY OF AUDITS: RULES TO REQUIRE DISCLOSURE OF CERTAIN AUDIT PARTICIPANTS ON A NEW PCAOB FORM AND RELATED AMENDMENTS TO AUDITING STANDARDS	)	PCAOB Release No. 2015-008 December 15, 2015 PCAOB Rulemaking Docket Matter No. 029

Summary: The Public Company Accounting Oversight Board ("PCAOB" or "Board") is adopting new rules and related amendments to its auditing standards that will improve transparency regarding the engagement partner and other accounting firms that took part in the audit. The rules will require disclosure of the name of the engagement partner and information about other accounting firms on new PCAOB Form AP, *Auditor Reporting of Certain Audit Participants* ("Form AP").

Board Contacts: Jennifer Rand, Deputy Chief Auditor (202/207-9206, randj@pcaobus.org); Jessica Watts, Associate Chief Auditor (202/207-9376, wattsj@pcaobus.org); Karen Wiedemann, Associate Counsel (202/591-4411, wiedemannk@pcaobus.org); and Lisa Calandriello, Assistant Chief Auditor (202/207-9337, calandriellol@pcaobus.org).

* * *

TABLE OF CONTENTS

I. Introduction 1
II. Background of the Final Rules 6
A. Rulemaking History 6
B. Requirements in Other Jurisdictions 8
III. Discussion of the Final Rules 9
A. Form AP—Auditor Reporting of Certain Audit Participants 10
1. Introduction 10
2. Disclosures About the Engagement Partner 11
3. Disclosure About Other Participants in the Audit 16
B. Liability Considerations 29
C. Voluntary Disclosure in the Auditor's Report 31
D. Filing Requirements 33
1. Filing Deadline 33
2. Other Filing Considerations 35
IV. Economic Considerations 38
A. Need for Mandatory Disclosure 38
1. Baseline 45
B. The Impact of Disclosure 46
1. The Benefits of Disclosure 47
2. The Costs and Other Possible Consequences of Disclosure 56
C. Alternatives Considered 62
1. Alternatives Considered Previously 62
2. Disclosure in the Auditor's Report 64
3. Disclosure on a New PCAOB Form 65
D. Applicability to Brokers and Dealers under Exchange Act Rule 17a-5 66
V. Considerations for Audits of Emerging Growth Companies 66
VI. Applicability to Audits of Brokers and Dealers and Employee Stock Purchase Plans 69
A. Audit of Brokers and Dealers under Exchange Act Rule 17a-5 69
B. Audits of Employee Stock Purchase Plans 71

VII. Effective Date..... 71
Appendix 1: Rules of the Board and Amendments to Auditing Standards.....A1-1
Appendix 2: Characteristics of Self-Identified EGCs.....A2-1

I. Introduction

The Board is adopting new rules and related amendments to its auditing standards that will provide investors and other financial statement users with information about engagement partners and accounting firms that participate in audits of issuers. Under the final rules, firms will be required to file a new PCAOB form for each issuer audit, disclosing:

- The name of the engagement partner;
- The name, location, and extent of participation of each other accounting firm participating in the audit whose work constituted at least 5% of total audit hours; and
- The number and aggregate extent of participation of all other accounting firms participating in the audit whose individual participation was less than 5% of total audit hours.

The information will be filed on Form AP, *Auditor Reporting of Certain Audit Participants*, and will be available in a searchable database on the Board's website.

Audits serve a crucial public function in the capital markets. However, investors have had very little ability to evaluate the quality of particular audits. Generally, in the United States, investor decisions about how much credence to give to an auditor's report have been based on proxies of audit quality, such as the size and reputation of the firm that issues the auditor's report. Investors and other financial statement users know the name of the accounting firm signing the auditor's report and may have other information related to the reputation and quality of services of the firm, but they are generally unable to readily identify the engagement partner leading the audit. They are also unlikely to know the extent of the role played by other accounting firms participating in the audit.

The Board is adopting these rules and amendments after considering four rounds of public comment, as well as comments from members of the Board's Standing Advisory Group ("SAG") and Investor Advisory Group ("IAG"). The Board has received consistent comments from investors throughout this rulemaking that stress the importance and value to them of increased transparency and accountability in relation to certain participants in the audit. These commenters indicated that access to such information would be relevant to their decision making, for example, in the context of

voting to ratify the company's choice of auditor.[1] The Board believes that its approach to providing information about the engagement partner and the other accounting firms that participated in the audit will achieve the objectives of enhanced transparency and accountability for the audit while appropriately addressing concerns raised by commenters.

In the Board's own experience, gained through more than ten years of overseeing public company audits, information about the engagement partner and other accounting firms participating in the audit can be used along with other information, such as history on other issuer audits or disciplinary proceedings, in order to provide insights into audit quality. The rules the Board is adopting will add more specific data points to the mix of information that can be used when evaluating audit quality.[2] Since audit quality is a component of financial reporting quality, high audit quality increases the credibility of financial reporting.

For example, the name of the engagement partner could, when combined with additional information about the experience and reputation of that partner, provide more information about audit quality than solely the name of the firm.[3] Through its oversight

---

[1] *See, e.g.,* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to the Office of the Secretary, PCAOB (Aug. 15, 2014), ("[I]nformation about engagement partners' track record compiled as the result of requiring disclosure of the partner's name in the auditor's report would be relevant to our members as long-term shareowners in overseeing audit committees and determining how to cast votes on the more than two thousand proposals that are presented annually to shareowners on whether to ratify the board's choice of outside auditor.").

[2] The Board's project on the auditor's reporting model, *Proposed Auditing Standards—The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards*, PCAOB Release No. 2013-005 (Aug. 13, 2013), is also focused on providing the market with additional information about the audit. In addition, the Board has issued a concept release, *Concept Release on Audit Quality Indicators*, PCAOB Release No. 2015-005 (July 1, 2015), regarding the content and possible uses of "audit quality indicators," a potential portfolio of quantitative measures that may provide new insights into how to evaluate the quality of audits and how high-quality audits are achieved.

[3] As discussed in Section II.B., most non-US jurisdictions with highly developed capital markets require transparency regarding the engagement partner responsible for the audit.

activities, the Board has observed that the quality of individual audit engagements varies within firms, notwithstanding firmwide or networkwide quality control systems. Although such variations may be due to a number of factors, the Board's staff uses engagement partner history as one factor in making risk-based selections of audit engagements for inspection. Some firms closely monitor engagement partner quality history themselves, utilizing this information to manage risk to the firm and to comply with quality control standards.

Under the final rules, investors and other financial statement users will have access, in one location, to the names of engagement partners on all issuer audits.[4] As this information accumulates and is aggregated with other publicly available information, investors will be able to take into account not just the firm issuing the auditor's report but also the specific partner in charge of the audit and his or her history as an engagement partner on issuer audits. This will allow interested parties to compile information about the engagement partner, such as whether the partner is associated with restatements of financial statements or has been the subject of public disciplinary proceedings, as well as whether he or she has experience as an engagement partner auditing issuers of a particular size or in a particular industry. While this information may not be useful in every instance or meaningful to every investor, the Board believes that, overall, it will contribute to the mix of information available to investors.

The final rules requiring disclosures about other accounting firms that participate in issuer audits should also provide benefits to investors and other financial statement users. In many audit engagements, especially audits of public companies operating in multiple locations internationally, the firm signing the auditor's report performs only a portion of the audit. The remaining work is performed by other (often affiliated) accounting firms that are generally located in other jurisdictions. The accounting firm issuing the auditor's report assumes responsibility for the procedures performed by other accounting firms participating in the audit[5] or supervises the work of other

---

[4] At this time, the Board is not extending the Form AP requirements to audits of brokers and dealers pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, as amended ("Exchange Act"). If a broker or dealer were an issuer required to file audited financial statements under Section 13 or 15(d) of the Exchange Act, the requirements would apply.

[5] *See* AS 1205 (currently AU sec. 543), *Part of the Audit Performed by Other Independent Auditors*. On March 31, 2015, the PCAOB adopted the reorganization of its auditing standards using a topical structure and a single, integrated numbering system. *See Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). On September 17, 2015, the U.S. Securities and Exchange Commission

accounting and nonaccounting firm participants in the audit.[6] However, under current requirements, the auditor's report generally provides no information about these arrangements, even though other accounting firms may perform a significant portion of the audit work. As a result, the auditor's report may give the impression that the work was performed solely by one firm—the firm issuing the auditor's report—and investors have no way of knowing whether the firm expressing the opinion did all of the work or only a portion of it.

Information provided on Form AP is intended to help investors understand how much of the audit was performed by the accounting firm signing the auditor's report and how much was performed by other accounting firms. Investors will also be able to research publicly available information about the firms identified in the form, such as whether a participating firm is registered with the PCAOB, whether it has been inspected and, if so, what the results were and whether it has any publicly available disciplinary history. Investors will also have a better sense of how much of the audit was performed by firms in other jurisdictions, including jurisdictions in which the PCAOB cannot currently conduct inspections. As with disclosure of the name of the engagement partner, these additional data points will add to the mix of information that investors can use.

In addition to the informational value of the disclosures required under the final rules, the Board believes the transparency created by public disclosure should promote increased accountability in the audit process. As Justice Brandeis famously observed, "Sunlight is said to be the best of disinfectants; electric light the most efficient policeman."[7] Although auditors already have incentives to maintain a good reputation,

---

("SEC" or "Commission") approved the PCAOB's adoption of the reorganization. *See Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules To Implement the Reorganization of PCAOB Auditing Standards and Related Changes to PCAOB Rules and Attestation, Quality Control, and Ethics and Independence Standards*, Exchange Act Release No. 34-75935 (Sept. 17, 2015), 80 FR 57263 (Sept. 22, 2015). The reorganized amendments will be effective as of December 31, 2016, and nothing precludes auditors and others from using and referencing the reorganized standards before the effective date. *See* PCAOB Release No. 2015-002, at 21.

[6] *See* AS 1201 (currently Auditing Standard No. 10), *Supervision of the Audit Engagement*.

[7] Louis Brandeis, *Other People's Money and How the Bankers Use It* 92 (1914).

such as internal performance reviews, regulatory oversight, and litigation risk, public disclosure will create an additional reputation risk, which should provide an incremental incentive for auditors to maintain a good reputation, or at least avoid a bad one. While this additional incentive will not affect all engagement partners in the same way, in the Board's view, it should provide an overall benefit.

The Board believes additional transparency should also increase accountability at the firm level. The Board has observed that some auditors allowed other accounting firms that did not possess the requisite expertise or qualifications to play significant roles in audits. Firms similarly have not always given the critical task of engagement partner assignment the care it deserves. For example, the Board's inspections have found instances in which accounting firms lacked independence because they failed to rotate the engagement partner, as required by the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act" or "Act") and the rules of the SEC. The Board has also imposed sanctions on firms that staffed a public company audit with an engagement partner who lacked the necessary competencies.[8] Making firms publicly accountable in a way they have not been previously for their selections of engagement partners and other accounting firms participating in the audit should provide additional discipline on the process and discourage such lapses.

The requirement to provide disclosure on Form AP, rather than in the auditor's report as previously proposed, is primarily a response to concerns raised by some commenters about potential liability and practical concerns about the potential need to obtain consents for identified parties in connection with registered securities offerings. Investors commenting in the rulemaking process have generally stated a preference for disclosure in the auditor's report. Under the final rules, in addition to filing Form AP, firms will also have the ability to identify the engagement partner and/or provide disclosure about other accounting firms participating in the audit in the auditor's report. This is not required, but firms may choose to do so voluntarily. The Board believes that providing information about the engagement partner and the other accounting firms that participated in the audit on Form AP, coupled with allowing voluntary reporting in the auditor's report, will achieve the objectives of enhanced transparency and accountability for the audit while appropriately addressing concerns raised by commenters.

In response to commenter suggestions, the Board is adopting a phased effective date to give firms additional time to develop systems necessary to implement the new rules. Subject to approval of the new rules and amendments by the SEC, Form AP

---

[8] *See, e.g., Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions, In the Matter of Deloitte & Touche, LLP*, PCAOB Release No. 105-2007-005 (Dec. 10, 2007).

disclosure regarding the engagement partner will be required for audit reports issued on or after the later of three months after SEC approval of the final rules or January 31, 2017. Disclosure regarding other accounting firms will be required for audit reports issued on or after June 30, 2017.

The Board is adopting two new rules (Rules 3210 and 3211) and one new form (Form AP).[9] These are disclosure requirements and do not change the performance obligations of the auditor in conducting the audit. The Board is also adopting amendments to AS 3101 (currently AU sec. 508), *Reports on Audited Financial Statements*, and AS 1205 (currently AU sec. 543) related to voluntary disclosure in the auditor's report.

In the Board's view, the final rules and amendments to its auditing standards, which the Board is adopting pursuant to its authority under the Sarbanes-Oxley Act, will further the Board's mission of protecting the interests of investors and furthering the public interest in the preparation of informative, accurate, and independent audit reports.

II. Background of the Final Rules

A. Rulemaking History

For several years, the Board has been considering requiring firms to provide more information about key participants in audits that are subject to PCAOB standards. Providing such information would provide additional transparency about who is responsible for performing an audit for the benefit and use of investors and other market participants.

The Board began this rulemaking process in 2009, in response to a recommendation of the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession ("ACAP"),[10] by seeking comment on whether the engagement partner should be required to sign the auditor's report.[11] In 2011, after considering

---

[9] The final rules, form instructions, and related amendments appear in Appendix 1.

[10] ACAP, *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* (Oct. 6, 2008), at VII:20 (recommending that the PCAOB undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report).

[11] *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, PCAOB Release No. 2009-005 (July 28, 2009) ("2009 Release").

commenters' views on a signature requirement, the Board proposed rules that would have required disclosure in the auditor's report of the name of the engagement partner. The Board proposed a disclosure approach instead of a signature requirement primarily in response to commenters' concerns regarding liability and the potential for a signature to overemphasize the role of the engagement partner in relation to that of the firm as a whole. In addition, the Board proposed rules that would have required disclosures of certain information about accounting firms and other participants in the audit to provide investors and other financial statement users with greater transparency into the other participants in the audit.[12]

In December 2013, the Board reproposed amendments to its standards that would have required disclosure in the auditor's report of: (1) the name of the engagement partner; (2) the names, locations, and extent of participation of other independent public accounting firms that took part in the audit; and (3) the locations and extent of participation, on an aggregate basis by country, of certain nonaccounting firm participants in the audit.[13]

In June 2015, the Board sought comment on the possibility of mandating disclosures regarding the engagement partner and other accounting firms participating in the audit on a new PCAOB form, Form AP, as an alternative to mandated disclosure in the auditor's report.[14] The 2015 Supplemental Request also solicited comment on narrowing or eliminating disclosures regarding nonaccounting firm participants.

In July 2015, the SEC issued a concept release regarding audit committee reporting requirements, which sought comment on, among other things, the potential to require audit committee disclosure of the name of the engagement partner and the

---

[12] *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*, PCAOB Release No. 2011-007 (Oct. 11, 2011) ("2011 Release"). The proposal would also have required accounting firms to name the engagement partner on the public Form 2, *Annual Report Form*, which is the reporting form registered firms are required to file to fulfill their annual reporting obligation to the Board regarding basic information about the firm and the firm's issuer-, broker-, and dealer-related practices over the most recent 12-month period.

[13] *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*, PCAOB Release No. 2013-009 (Dec. 4, 2013) ("2013 Release").

[14] *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*, PCAOB Release No. 2015-004 (June 30, 2015) ("2015 Supplemental Request").

names of the other independent public accounting firms and other persons involved in the audit.[15] Comments received by the SEC were considered in developing the Board's final rules.

Throughout this process, the Board has sought to balance the potential benefits of disclosure regarding the engagement partner and other accounting firms that participate in the audit with concerns expressed by some commenters about its potential consequences, including the potential for an increase in auditors' liability and litigation risk, confusion about the role of the firm in the audit, and administrative costs, among others. Toward that end, the Board has looked for ways to achieve the goals of increased transparency and accountability for auditors while limiting, to the extent consistent with those goals, potential unintended consequences.

B. Requirements in Other Jurisdictions

Many other jurisdictions require disclosure of the name of the engagement partner in the auditor's report or engagement partner signature on the auditor's report when issued in connection with audits of various private and public entities. In May 2006, the European Union ("EU") adopted the Statutory Audit Directive (2006/43/EC), which, among other things, requires "at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm" to sign the auditor's report.[16] This directive required all EU members to enact conforming legislation.

Engagement partner identification is not limited to the EU. For example, 16 out of the 20 countries with the largest market capitalization, including 7 EU member states, already require disclosure of the name of the engagement partner in the auditor's report.[17] In 2014, the International Auditing and Assurance Standards Board ("IAASB") adopted International Standard on Auditing ("ISA") 700 (Revised), *Forming an Opinion*

---

[15] *See* SEC, *Possible Revisions To Audit Committee Disclosures*, Exchange Act Release No. 34-75344 (July 1, 2015), 80 FR 38995 (July 8, 2015).

[16] *See* Directive 2006/43/EC of the European Parliament and of the Council, Article 28, Audit Reporting (May 17, 2006).

[17] Out of the 20 countries with the largest market capitalization (based on data obtained from the World Bank, World Development Indicators), the four that currently do not require the disclosure of the name of the engagement partner are the United States, Canada, Republic of Korea, and Hong Kong. The 16 countries that currently require disclosure of the name of the engagement partner are Japan, United Kingdom, France, Germany, Australia, India, Brazil, China, Switzerland, Spain, Russian Federation, the Netherlands, South Africa, Sweden, Mexico, and Italy.

and Reporting on Financial Statements, which requires disclosure of the name of the engagement partner in the auditor's report for audits of financial statements of listed entities for periods ending on or after December 15, 2016. Once the revised ISA 700 goes into effect, disclosure of the engagement partner's name in the auditor's report of a listed entity will be required in those jurisdictions that have adopted the ISAs as adopted by the IAASB.

Unlike disclosure of the engagement partner's name, disclosure of other accounting firms that participated in the audit is not, to the Board's knowledge, required in any other country. In June 2012, the IAASB issued an Invitation to Comment, *Improving the Auditor's Report*, which sought comment on whether other accounting firms that participate in the audit should be disclosed in the auditor's report. The IAASB's final standard did not include such a requirement. The PCAOB's standards have also prohibited identification of other accounting firms in the auditor's report unless responsibility for the audit is divided. The amendments the Board is adopting will require public disclosure of such information on Form AP and will remove the prohibition on auditor's report disclosure of information that is required to be disclosed on Form AP when accompanied by certain statements clarifying the responsibility of the firm signing the auditor's report. These statements should address the potential risk of confusion about responsibility for the audit.

III. Discussion of the Final Rules

The required disclosures under the final rules principally include:

- The name of the engagement partner; and
- For other accounting firms[18] participating in the audit:
  - 5% or greater participation: The name, city and state (or, if outside the United States, the city and country), and the percentage of total audit hours[19] attributable to each other accounting firm whose participation in the audit was at least 5% of total audit hours;

---

[18] For purposes of Form AP, "other accounting firm" means (i) a registered public accounting firm other than the firm filing Form AP or (ii) any other person or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework.

[19] *See* Section III.A.3.b.iv for a discussion of computation of total audit hours.

- Less than 5% participation: The number of other accounting firms that participated in the audit whose individual participation was less than 5% of total audit hours, and the aggregate percentage of total audit hours of such firms.

The final rules require this information to be filed on Form AP. In addition to filing the form, the firm signing the auditor's report may voluntarily provide information about the engagement partner, other accounting firms, or both in the auditor's report.

A. Form AP—Auditor Reporting of Certain Audit Participants

1. Introduction

Under the final rules, firms will be required to provide specified disclosures regarding the engagement partner and other accounting firms participating in the audit on a new PCAOB form, Form AP. Most commenters supported Form AP as a vehicle for disclosures about the engagement partner and other participants in the audit. However, some commenters criticized the Form AP approach generally because they disputed the net value of the information to be disclosed, regardless of the means of disclosure, or believed that the information was more appropriately presented elsewhere, such as in the auditor's report, the issuer's proxy statement, or PCAOB Form 2. Investors and investor groups generally preferred auditor signature or disclosure in the auditor's report and characterized Form AP as an acceptable second-best approach. Most other commenters, on the other hand, preferred Form AP, generally on the basis that it would help mitigate legal and practical issues associated with disclosure in the auditor's report.

As noted in the 2015 Supplemental Request, Form AP serves the same purpose as disclosure in the auditor's report. Its intended audience is the same as the audience for the auditor's report—investors and other financial statement users—and its filing is tied to the issuance of an auditor's report. In that respect, it differs from the PCAOB's existing forms,[20] which are intended primarily to elicit information for the Board's use in connection with its oversight activities, with a secondary benefit of making as much reported information as possible available to the public as soon as possible after filing

---

[20] Existing PCAOB reporting forms have been developed for the principal purpose of registration with the Board and reporting to the Board about a registered public accounting firm's issuer, broker, and dealer audit practice. These forms are: (1) Form 1, *Application for Registration*; (2) Form 1-WD, *Request for Leave to Withdraw from Registration*; (3) Form 2, *Annual Report*; (4) Form 3, *Special Report*; and (5) Form 4, *Succeeding to Registration Status of Predecessor*.

with the Board.[21] Form AP is primarily intended as a vehicle for public disclosure, much like the auditor's report itself.[22] While information on Form AP could also benefit the Board's oversight activities, that is ancillary to the primary goal of public disclosure.

2. Disclosures About the Engagement Partner

Since the inception of this rulemaking, the Board has explored a variety of means of providing public disclosure of the name of the engagement partner, including engagement partner signature on the auditor's report, identification of the engagement partner in the auditor's report, and identification of the name of the engagement partner on Form 2. The 2013 Release contemplated identifying the engagement partner in the auditor's report. The 2015 Supplemental Request solicited comment on the potential use of Form AP, with optional additional disclosure in the auditor's report.

Commenters on the 2013 Release and on the 2015 Supplemental Request expressed divergent views on a requirement to disclose the name of the engagement partner. Commenters that supported the disclosure requirement argued that it would provide information that would be useful to investors and other financial statement users (for example, in connection with a vote on ratification of auditors), or could improve audit quality by increasing the sense of accountability of engagement partners. Commenters that opposed the requirement generally claimed that identification of the engagement partner would give rise to unintended negative consequences, particularly with respect to liability; would not be useful information for investors and other financial statement users; could incentivize engagement partners to act in ways that protect their reputations but potentially conflict with the audit quality goals of their audit firms or with

---

[21] *Rules on Periodic Reporting by Registered Public Accounting Firms*, PCAOB Release No. 2008-004 (June 10, 2008), at 28.

[22] The Board has authority under Section 103 of the Sarbanes-Oxley Act to adopt, by rule, audit standards "to be used by registered public accounting firms in the preparation and issuance of audit reports . . . as may be necessary or appropriate in the public interest or for the protection of investors." In addition, under Section 102 of the Sarbanes-Oxley Act, the Board has authority to require registered public accounting firms to submit periodic and special reports, which are publicly available unless certain conditions are met. If a firm requests confidential treatment of information under Section 102(e) of the Sarbanes-Oxley Act, the information is not publicly disclosed unless there is a final determination that it does not meet the conditions for confidentiality. Because of the intended purpose of Form AP and the Board's related authority under Section 103 of the Sarbanes-Oxley Act, confidential treatment of the information filed on Form AP will not be available.

broader indicators of audit quality; and could mislead or confuse users about the role of the engagement partner, in particular by overemphasizing the role of the engagement partner as compared to the role of the firm. Several of the commenters that previously opposed disclosure in the auditor's report were more supportive of disclosure in a PCAOB form, if the Board determined to mandate disclosure.

The Board believes that disclosure of the name of the engagement partner will, overall, be useful to investors and other financial statement users. Although the disclosure of the name of the engagement partner might provide limited information initially, it is reasonable to expect that, over time, the disclosures will allow investors and other financial statement users to consider a number of other data points about the engagement partner, such as the number and names of other issuer audit engagements in which the partner is the engagement partner and other publicly available data. Such bodies of information have developed in some other jurisdictions, such as Taiwan, where public companies are required to disclose the names of the engagement partners,[23] and some commenters believe that, in the United States, third-party vendors will supply information in addition to what is provided by Form AP.

Some commenters on the 2015 Supplemental Request suggested that disclosure regarding a number of these matters, such as industry experience, partner tenure, restatements and disciplinary actions, be added to Form AP or linked to Form AP data. One of these commenters pointed out that the academic literature supports the potential usefulness of metrics, such as the number of years the individual has served as the engagement partner or the engagement partner for prior years as signals of audit quality, and that, by requesting additional background information in the first year of implementation, the PCAOB could accelerate the usefulness of Form AP data. In striking a balance between the anticipated benefits of the rule and its anticipated costs, including the costs and timing of initial implementation, the Board has determined not to expand the disclosures required on Form AP at this time.

Some commenters raised concerns that public identification of the engagement partner could lead to a rating, or "star," system resulting in particular individuals being in high demand, to the unfair disadvantage of other equally qualified engagement

---

[23] As described in Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, *Capital Market Consequences of Audit Partner Quality*, 90 The Accounting Review 2143 (2015), the Taiwan Economic Journal collects data that covers all public companies in Taiwan and includes, among other things, the names of the engagement partners, the accounting firm issuing the auditor's report, the regulatory sanction history of the partners, and the audit opinions. Professor Aobdia is a research fellow at the PCAOB. His research cited above was undertaken prior to joining the PCAOB.

partners. These commenters also suggested that, if such a system were created, engagement partners may not be willing to accept the most challenging audit engagements. The Board is aware that, as a consequence of the required disclosures, certain individuals may develop public reputations based on their industry specializations, audit history, and track records. The Board does not believe that such information would necessarily be harmful and could, to the contrary, be useful to investors and other financial statement users. In recent years, detailed information about the backgrounds, expertise, and reputations among clients and peers has become commonly available regarding other skilled professionals and such information is widely available to consumers of those services. The role of an auditor, including an engagement partner, differs from that of other professions, but the underlying principle that consumers of professional services could make better decisions with more information still applies. Further, investors generally commented that they would benefit from information about the identity of those who perform audits.

Some commenters were concerned that identification of the engagement partner may confuse investors by putting a misleading emphasis on a single individual when an audit, particularly a large audit, is in fact a group effort. One commenter suggested that the disclosure should be expanded to include members of firm leadership to help clarify the responsibility for the audit; other commenters suggested adding context, such as disclosure of the proportion of total audit hours attributable to the engagement partner; identification of other parties that play a role in the engagement; identification of the engagement quality reviewer; or a sentence that explains the roles of the engagement partner and the firm signing the auditor's report in the performance of the audit.

It is true that an audit is often a group effort and that a large audit of a multinational company generally involves a very large team with more than one partner involved. Nevertheless, the engagement partner, who is the "member of the engagement team with primary responsibility for the audit,"[24] plays a unique and critical role in the audit. It is not unusual in audits of large companies for audit committees to interview several candidates for their engagement partner when a new engagement partner is to be chosen because the qualifications and personal characteristics of the engagement partner are viewed by the audit committee and senior management as particularly important. Because of the engagement partner's key role in the audit, it is appropriate when shareholders are asked to ratify the company's choice of the registered firm as its auditor to be well informed about the leader of the team that conducted the most recently completed audit. Public identification of the name of the engagement partner will help serve that end. The role played in the audit by others such

---

[24] *See* Appendix A of AS 2101 (currently Auditing Standard No. 9), *Audit Planning*, and Appendix A of AS 1201 (currently Auditing Standard No. 10).

as the engagement quality reviewer, while important, is not comparable and, in the Board's view, does not warrant separate identification at this time.

Some commenters on the 2013 and 2011 Releases expressed concerns that public identification of engagement partners may make them susceptible to threats of violence and suggested adding an exception to the disclosure requirement analogous to that in the EU's Eighth Company Law Directive, which allows for an exception "if such disclosure could lead to an imminent and significant threat to the personal security of any person."[25] However, other commenters on the 2011 Release indicated that auditors should not be treated differently, for security purposes, than other individuals involved in the financial reporting process who are publicly associated with a company in its SEC filings. The Board notes that a requirement to disclose the names of financial executives, board members, and audit committee members has been in place in the U.S. for quite some time, yet there is no indication that personal security risks have increased for these individuals. Therefore, the final rules do not include an exception to the required disclosure.

Many commenters have also suggested that the simple act of naming the engagement partner will increase the engagement partner's sense of accountability. Some of these commenters argued that increased accountability would lead to changes in behavior that would enhance audit quality. In their view, the availability of information about engagement partner history, and the potential that individuals may develop public reputations based on their industry specializations, audit history, and track records could be a powerful antidote to internal pressures or may foster improved compliance with existing auditing standards. Many accounting firms, associations of accountants, and others disputed this argument, claiming that engagement partners are already accountable as a result of internal performance reviews, regulatory oversight, and litigation risk. The Board believes allowing investors and other financial statement users to distinguish not just among firms, but also among partners, should enhance the incentive for engagement partners to develop a reputation for performing high-quality audits.

Public disclosure of the engagement partner's name could also have a beneficial effect on the engagement partner assignment process at some firms. In many public companies, particularly larger ones, the choice of an engagement partner is determined by both the firm and the audit committee. As discussed above, firms would be publicly accountable for these assignments in a way that they have not been previously. Some commenters noted that audit committees are currently able to obtain non-public

---

[25] Directive 2006/43/EC of the European Parliament and of the Council, Article 28, Audit Reporting (May 17, 2006).

information about engagement partners. These commenters suggested that mandated disclosure would not be useful to audit committees, since audit committees already know the information being disclosed. However, as noted by another commenter, disclosure would lead to more information becoming publicly available about all engagement partners on audits of issuers conducted under PCAOB standards, which should provide audit committees with additional context and benchmarking information when participating in the assignment process.

Some commenters suggested that, because the financial statements and the auditor's report are retrospective, the disclosure required under the proposed amendments would not be useful for shareholders deciding whether to ratify the audit committee's choice of auditor. Under the final rules, shareholders will be able to find the identity of the engagement partner for the most recently completed audit but not for the next period. Other commenters, however, claimed that historical information would provide insight into the audit process and would enable investors to better evaluate the audit, which would assist them in making the ratification decision.

For the reasons discussed above, the Board believes that disclosure of the name of the engagement partner will benefit investors and other financial statement users by providing more specific data points in the mix of information that can be used when evaluating audit quality and hence credibility of financial reporting. At the same time, the disclosure should, at least in some circumstances, enhance the accountability of both engagement partners and accounting firms.

In commenting on the 2015 Supplemental Request, some academics noted potential uncertainty or ambiguity that could arise if engagement partners' names were not presented consistently in Form AP, if an engagement partner changed his or her name or changed firms, or if two engagement partners had the same name. Some commenters suggested that the PCAOB include a unique partner identifying number to ensure that partners could be unambiguously identified over time. Evidence available to PCAOB staff indicates that the problem of partner name confusion among the largest audit firms would be quite limited.[26] However, because it may improve the usability of the data, Form AP includes a field for such a partner identifying number, and the final

[26] In order to evaluate the potential extent of confusion about partner names, staff researched six years of partner name data for the largest four accounting firms. Three scenarios of potential name confusion were constructed and quantitatively evaluated. The first scenario was two partners in a firm sharing the exact same name. The second scenario was a lead engagement partner changing audit firms. The final scenario was a partner changing last names. The total incidence of such scenarios appeared to affect less than 0.5% of the partner population in the sample.

rules require each registered accounting firm to assign a 10-digit partner identifying number—Partner ID—to each of its partners serving as the engagement partner on audits of issuers.[27] The number will be identified to a particular partner and will not be reassigned if the partner retires or otherwise ceases serving as engagement partner on issuer audits conducted by that firm. If an engagement partner changes firms, the new firm must assign a new Partner ID to the engagement partner. The new firm will be responsible for reporting on Form AP the engagement partner with his or her new Partner ID and all Partner IDs previously associated with the engagement partner. The Board believes that the ability to unambiguously identify each engagement partner with his or her issuer audit history may improve the usability of the data gathered on Form AP and the overall cost of implementation should be low.

3. Disclosure About Other Participants in the Audit

a. Introduction

In the 2013 Release, the Board proposed disclosure in the auditor's report of: (1) the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and (2) the locations and extent of participation, on an aggregate basis by country, of certain other persons not employed by the auditor that took part in the audit. Extent of participation would have been determined as a percentage of total audit hours, excluding hours attributable to the engagement quality reviewer, Appendix K[28] review and internal audit. Extent of participation would have

---

[27] *See* general instruction 7 and Item 3.1.a.6 of Form AP. The firm is required to assign a 10-digit Partner ID number, beginning with the Firm ID (a unique five-digit number based on the number assigned to the firm by the PCAOB; Firm ID is discussed further in Section III.A.3.b.i) followed by a unique series of five digits assigned by the firm. The unique series element can be any series of numbers of the firm's choosing that is unique to each engagement partner associated with the firm. For example, the unique series element could be sequential numbers, numbers based on the year the partner was admitted into the partnership, or random numbers.

[28] *See* SEC Practice Section ("SECPS") Section 1000.45 Appendix K, *SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants.* The Board adopted Appendix K as part of its interim standards. *See* Rule 3400T(b), *Interim Quality Control Standards*; SECPS Section 1000.08(n). Appendix K requires accounting firms associated with international firms to seek the adoption of policies and procedures consistent with certain objectives, including having policies and procedures for certain filings of SEC registrants which are the clients of foreign associated firms to be reviewed by persons knowledgeable in PCAOB standards.

been disclosed as a number or within a range (less than 5%, 5% to less than 10%, 10% to less than 20%, and so on in 10% increments) and would have been based on estimates of audit hours. Other accounting firms whose participation was less than 5% of total audit hours were not required to be individually identified; rather, the number of such other accounting firms and their aggregate participation would have been disclosed. Similarly, for nonaccounting firm participants in the same country whose aggregate participation was less than 5%, disclosure of the number of such countries and the aggregate participation of nonaccounting firm participants in such countries would have been required.

The 2015 Supplemental Request solicited comment on limiting disclosures with respect to nonaccounting firm participants, including the possibility of eliminating such disclosures altogether or tailoring the requirements so that disclosure would only be provided with respect to nonaccounting firms that were not entities controlled by or under common control with the auditor or employees of such entities. In addition, unlike the 2013 Release (but aligned with the 2011 Release), the disclosure requirements and computation of total audit hours presented in the 2015 Supplemental Request excluded specialists engaged, not employed, by the auditor.

Some commenters generally supported the requirements in the 2013 Release and asserted that disclosure of the other accounting firms involved in the audit would provide useful information to investors. Other commenters opposed the requirement, because of potential consent requirements and liability under the Securities Act of 1933 ("Securities Act"), or based on the belief that disclosures were not useful information, could confuse financial statement users about the degree of responsibility for the audit assumed by the accounting firm signing the auditor's report, or could contribute to information overload. Others suggested that the current auditing standards (for example, AS 1205 (currently, AU sec. 543)) in this area are adequate. Many commenters on the 2015 Supplemental Request supported other accounting firm disclosures on Form AP (even some who disagreed with engagement partner disclosure requirements). Most commenters supported having no required disclosure of nonaccounting firm participants.

The Board believes that information about other accounting firms participating in the audit is of increasing importance as companies become more global.[29] Many

---

[29] For example, in their most recent audited financial statements filed as of May 15, 2015, approximately 51% and 41% of the population of companies in the Russell 3000 Index reported segment sales and assets, respectively, in geographic areas outside the country or region of the accounting firm issuing the auditor's report. For the population of companies in the Russell 3000 Index that reported segment sales or assets in geographic areas outside the country or region of the accounting firm

companies with substantial operations outside the United States are audited by U.S.-based, PCAOB-registered public accounting firms.[30] The Board's inspection process has revealed that the extent of participation by firms other than the one that signs the auditor's report ranges from none to most of the audit work (or, in extreme cases, substantially all of the work).[31] In many situations, the accounting firm signing the auditor's report uses another accounting firm in a foreign country to audit the financial statements of a subsidiary in that country. These arrangements are often used in auditing today's multinational corporations. At the same time, the quality of the audit is dependent, to some degree, on the competence and integrity of the participating accounting firms. This is especially true when the firm signing the auditor's report has reviewed only a portion of the work done by the other accounting firm, as is permitted under AS 1205 (currently AU sec. 543).[32] The Board and its staff previously conveyed

---

issuing the auditor's report, approximately 40% and 35% of those segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

[30] *See Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm*, PCAOB's Staff Audit Practice Alert No. 6 (July 12, 2010) (discussing the trend of smaller U.S. firms' auditing companies with operations in emerging markets and reminding auditors of their responsibilities in such audits). Staff Audit Practice Alert No. 6, at 2, noted that "in a 27-month period ending March 31, 2010, at least 40 U.S. registered public accounting firms with fewer than five partners and fewer than ten professional staff issued audit reports on financial statements filed with the SEC by companies whose operations were substantially all in the China region." *See also Activity Summary and Audit Implications for Reverse Mergers Involving Companies from the China Region: January 1, 2007 through March 31, 2010*, PCAOB Research Note No. 2011-P1 (Mar. 14, 2011) (discussing available information on the role of registered public accounting firms in auditing issuers in the China region).

[31] AS 1205.02 (currently AU sec. 543.02) requires the auditor to decide whether his own participation is sufficient to enable him to serve as the principal auditor and to report as such on the financial statements. Current auditing standards state that the firm may serve as principal auditor even when "significant parts of the audit may have been performed by other auditors." AS 1205.02. The PCAOB has a project on its agenda to improve the auditing standards that govern the planning, supervision, and performance of audits involving other auditors. *See Standard-Setting Agenda*, *Office of the Chief Auditor* (Sept. 30, 2015).

[32] *See* AS 1205 (currently AU sec. 543) for a list of matters the auditor is required to review.

their concern about some practices they have seen in these arrangements.[33] In addition to providing potentially valuable information to investors and other financial statement users about who actually performed the audit, the disclosure of other accounting firms participating in the audit could provide other potentially valuable information, such as the extent of participation in the audit by other accounting firms in jurisdictions in which the PCAOB cannot conduct inspections.

Some commenters expressed concern that including information in the auditor's report about other participants in the audit might confuse financial statement users as to who has overall responsibility for the audit or appear to dilute the responsibility of the firm signing the auditor's report. Other commenters, including investors and other financial statement users, expressed support for the disclosure and indicated that investors and other financial statement users are able to distinguish and evaluate many disclosures made by management. These commenters have also asserted that they would be able to consider the information appropriately. To address concerns about potential confusion regarding who has overall responsibility for the audit or potential dilution of the responsibility of the signing firm, the final rules provide that if disclosure regarding other accounting firms is voluntarily included in the auditor's report, the auditor's report must also include a statement that the firm signing the auditor's report is responsible for the audits and audit procedures performed by the other accounting firms and has supervised or performed procedures to assume responsibility for the work in accordance with PCAOB standards.

b. Participants for Which Disclosure is Required

i. *Other Accounting Firms*

Under the final rules, disclosure is required with respect to all other accounting firms that participated in the audit. The final rules define an "other accounting firm" as

(i) a registered public accounting firm other than the firm filing Form AP, or

---

[33] *See Audit Risk in Certain Emerging Markets*, PCAOB's Staff Audit Practice Alert No. 8, at 19 (Oct. 3, 2011) ("Through the Board's oversight activities, the Board's staff has observed instances in certain audits of companies in emerging markets in which the auditor did not properly coordinate the audit with another auditor."); *see also Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions*, *In the Matter of Clancy and Co., P.L.L.C.*, *et al.*, PCAOB Release No. 105-2009-001 (Mar. 31, 2009) (imposing sanctions in a case in which a U.S. firm used a significant amount of audit work performed by a Hong Kong firm without adequately coordinating its work with that of the Hong Kong firm).

(ii) any other person or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework.

For purposes of Form AP, an other accounting firm participated in the audit if (i) the firm filing Form AP assumed responsibility for the work and report of the other accounting firm as described in paragraphs .03 - .05 of AS 1205 (currently AU sec. 543), or (ii) the other accounting firm or any of its principals or professional employees was subject to supervision under AS 1201 (currently Auditing Standard No. 10).

As noted above, the 2013 Release contemplated that disclosure would be required with respect to other "public accounting firms" that took part in the audit. Under the Board's rules, "public accounting firm" means "a proprietorship, partnership, incorporated association, corporation, limited liability company, limited liability partnership, or other legal entity that is engaged in the practice of public accounting or preparing or issuing audit reports."[34] The change in the definition is intended to facilitate compliance and avoid potential uncertainty about the entities for which disclosure must be provided on Form AP.

The amount of disclosure required varies with the level of participation in the audit. For each other accounting firm whose participation accounted for at least 5% of total audit hours, the following information must be provided:

- Legal name;
- A unique five-digit identifier ("Firm ID") for firms that have a publicly available PCAOB-assigned number [35]
- Headquarters office location (city and state (or, if outside the US, city and country)); and
- Extent of participation, expressed as a percentage (either as a single number or within a range) of total audit hours.

---

[34] PCAOB Rule 1001(p)(iii), *Definition of Terms Employed in Rules*.

[35] This number can be found by viewing the firm's summary page on the PCAOB website, where it is displayed parenthetically next to the name of the firm—firm name (XXXXX). If the number assigned to the firm by the PCAOB has fewer than five digits, leading zeroes should be added before the number to make the five-digit Firm ID, for example, 99 should be presented as 00099. For example, all currently-registered firms have a number assigned by the PCAOB.

Form AP includes a new requirement to provide the Firm ID for all currently-registered firms as well as other accounting firms that have a publicly available PCAOB-assigned number. Although commenters did not raise a concern about needing unique identifiers for firms as they did for engagement partners, the staff is aware that some accounting firms in the same country may have the same or very similar names. To alleviate possible confusion among accounting firm names and to ensure that firms that have a publicly available PCAOB-assigned number can be more easily linked to other PCAOB registration and inspection data, Form AP requires disclosure of the Firm ID.

Some commenters expressed concern that disclosure of other accounting firms participating in the audit may provide information about the issuer's operations that would not otherwise be required to be disclosed (for example, countries in which the issuer operates). Given that the reporting provides information about where the audit was conducted and not necessarily where the issuer's business operations are located and that the names and locations of other accounting firms are only identified if their work constitutes at least 5% of total audit hours, the Board has not revised the proposed requirements to address this concern.

For other accounting firms that participated in the audit but whose individual participation accounted for less than 5% of total audit hours, the following aggregated information is required:

- The number of such other accounting firms; and
- The aggregate extent of participation of such other accounting firms, expressed as a percentage of total audit hours.

Similar to comments received on the 2011 Release, a few commenters on the 2013 Release suggested that the Board should consider requiring disclosure regarding the nature of the work of or areas audited by other accounting firms. Further, some commenters suggested that the Board require the addition of clarifying language regarding the structure of the firm, the firm's system of quality controls, and the work performed by the firm signing the auditor's report over the work of other accounting firms participating in the audit.

After considering comments on the 2011 and 2013 Releases, no requirement was added for additional clarifying language because the Board does not believe that requiring the disclosure of this more detailed information is necessary to meet the Board's overall objective of this rulemaking. Moreover, the final rules require the firm preparing Form AP to acknowledge its responsibility for the audits or audit procedures performed by other accounting firms that participated in the audit.

ii. *Referred-to Auditors*

In situations in which the auditor makes reference to another accounting firm in the auditor's report,[36] the 2015 Supplemental Request suggested that the auditor would also disclose the name of the other public accounting firm ("referred-to auditor"), the city and state (or, if outside the United States, city and country) of the office of the other public accounting firm that issued the other audit report, and the magnitude of the portion of the financial statements audited by the referred-to auditor on Form AP. The Board is adopting these requirements substantially as described in the 2015 Supplemental Request.[37] The requirement to file Form AP does not apply to referred-to auditors, since the referred-to auditor may not be required to register with the PCAOB[38] and would not generally be conducting the audit of an issuer, but rather a subsidiary or business unit of an issuer.

Unlike the disclosures for other accounting firm participants, which are based on the percentage of total audit hours, Form AP disclosures for referred-to auditors effectively incorporate the existing requirements for disclosure of the magnitude of the portion of the financial statements audited by the referred-to auditor.[39] In addition, Form AP requires the name, the city and state (or, if outside the United States, city and country) of headquarters' office location, and Firm ID, if any, of the referred-to auditor.

---

[36] *See* AS 1205.03, .06–.09 (currently AU sec. 543.03, .06-.09).

[37] Additionally, the amendments to AS 1205 (currently AU sec. 543) remove, as unnecessary, the requirement to obtain express permission of the other accounting firm when deciding to disclose the firm's name in the auditor's report because, as discussed below, the SEC rules already include a requirement that the auditor's report of the referred-to auditor be filed with the SEC.

[38] Under PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms*, each public accounting firm that "plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer, broker, or dealer must be registered with the Board."

[39] *See* AS 1205.07 (currently AU sec. 543.07). Existing PCAOB standards require that the auditor disclose the magnitude of the portion of the financial statements audited by the referred-to accounting firm by stating the dollar amount or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements audited by the referred-to accounting firm.

iii. *Nonaccounting Firm Participants*

Under the 2013 Release, disclosure would have been required with respect to all "persons not employed by the auditor"[40] that the auditor was required to supervise pursuant to AS 1201 (currently Auditing Standard No. 10). Such nonaccounting firm participants would not have been identified by name. Rather, these participants would have been identified in the auditor's report as "persons in [country] not employed by our firm." These disclosures would have permitted investors to determine how much of the audit was performed by nonaccounting firm participants in a particular jurisdiction but not the nature of the work performed by those nonaccounting firm participants or whether they were, for example, offshore service centers, consultants, or another type of entity.

Commenters' reactions to the reproposed disclosure requirements were mixed. Some commenters argued for uniform treatment of accounting firm participants and nonaccounting firm participants, either to make disclosure easier to understand or to avoid the creation of incentives to engage nonaccounting firm participants rather than other accounting firms. Some of these commenters suggested that the nature of services performed by persons not employed by the auditor should also be disclosed. Other commenters questioned the value of the disclosures or suggested that the disclosures could be confusing or subject to misinterpretation. Some commenters were particularly critical of requiring disclosures regarding "offshored" work[41] and work performed by leased personnel (often in firms that have an alternative practice structure[42]). These commenters asserted that work performed by nonaccounting firm

---

[40] PCAOB Release No. 2011-007, at 18.

[41] The 2011 Release noted that some accounting firms had begun a practice, known as offshoring, whereby certain portions of the audit are performed by offices in a country different than the country where the firm is headquartered. The Board understands that offshored work may be performed by another office of or by entities that are distinct from, but that may be affiliated with, the registered firm that signs the auditor's report. The Board notes that the practice of sending some audit work to offshore service centers, typically in countries where labor is inexpensive, has been increasing in recent years.

[42] The Board's standards describe alternative practice structures as "nontraditional structures" whereby a substantial (the nonattest) portion of an accounting firm's practice is conducted under public or private ownership, and the attest portion of the practice is conducted through the accounting firm. ET section 101.16, *101-14—The effect of alternative practice structures on the applicability of independence rules*.

participants under the direct supervision and review of the firm signing the auditor's report should not be required to be separately identified, regardless of who performed the work and where the work was performed. One commenter further asserted that disclosure should not be required regarding subsidiaries of, or other entities controlled by, the registered firm issuing the auditor's report or entities that are subject to common control (for example, sister entities that perform tax, valuation, or other assistance to the registered firm), arguing that the manner in which a registered firm is structured should not trigger a disclosure requirement.

The 2015 Supplemental Request solicited comment on eliminating disclosures regarding nonaccounting firm participants or tailoring them to eliminate disclosure for entities that are controlled by or under common control with the auditor, and the employees of such entities. While some commenters supported the disclosure requirements, most argued that disclosure would not be useful and may be confusing or inconsistent, given the differences in legal structures and practice arrangements across global networks.

After considering the comments and the intention of the disclosure, the requirement to disclose the location and extent of participation of nonaccounting firm participants has been eliminated from the final rule.[43] The Board recognizes that, while nonaccounting firms may participate in the audit, the Board's intent is to provide information about the participation of accounting firms. Accounting firms are responsible for supervising the work of nonaccounting firm participants. In addition, the Board's website includes names of registered accounting firms and inspection reports, as well as disciplinary actions with respect to registered public accounting firms. Information about nonaccounting firm audit participants may not be as meaningful to users since similar information is not available for these participants. The Board can monitor trends in the use of nonaccounting firms, which could have an effect on audit quality, and analyze whether such trends are related to the requirements of Form AP.

Nonaccounting firm participants participate in audits at the request of and in support of the audit work of accounting firms participating in the audit. For that reason, unless expressly excluded from the computation of total audit hours (*see* Section III.A.3.b.iv), hours incurred by nonaccounting firm participants in the audit are included in the calculation of total audit hours and should be allocated among the other accounting firms that participated in the audit on the basis of which accounting firm commissioned and directed the applicable work of the nonaccounting firm.

---

[43] Unless the context dictates otherwise, "nonaccounting firm participant" as used in this release means any person or entity other than the principal auditor or any other accounting firm that participates in an audit.

iv. *Exclusions from Disclosure and Computation of Total Audit Hours*

The 2015 Supplemental Request indicated that the following persons would be excluded from the disclosures and from the computation of total audit hours:

- The engagement quality reviewer;[44]
- Persons performing a review pursuant to Appendix K;[45]
- Specialists engaged, not employed, by the auditor;[46]
- Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting;[47] or
- Internal auditors who provided direct assistance in the audit of the financial statements.[48]

While some commenters on the 2015 Supplemental Request suggested that excluding the engagement quality reviewer and Appendix K review from calculation of audit hours

---

[44] *See* AS 1220 (currently Auditing Standard No. 7), *Engagement Quality Review.*

[45] *See supra* 28.

[46] AS 1210 (currently AU sec. 336), *Using the Work of a Specialist,* describes a specialist as "a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing." Examples of specialists include, but are not limited to, actuaries, appraisers, engineers, environmental consultants, and geologists. Income taxes and information technology are specialized areas of accounting and auditing and, therefore, persons or firms possessing such skills are not considered specialists. AS 1210.01.

[47] *See* paragraph 17 of AS 2201 (currently Auditing Standard No. 5), *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

[48] *See* paragraph .27 of AS 2605, *Consideration of the Internal Audit Function* (currently AU sec. 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*).

would add administrative effort, commenters at earlier stages of the rulemaking were supportive of these exclusions. The Board continues to believe that the exclusion of the engagement quality reviewer is appropriate because he or she is not under the supervision of the engagement partner.[49] Similarly, the Appendix K review is excluded because the engagement partner does not supervise or assume responsibility for that work.

The hours incurred by persons employed or engaged by the company who provided direct assistance to the auditor are excluded because determining the extent of their participation in the audit may be impractical. Such persons also may perform other tasks for the company not related to providing direct assistance to the auditor or may not track time spent on providing the direct assistance.

Under the 2013 Release, the hours of persons with specialized skill or knowledge ("specialists") engaged by the auditor were included in the calculation of audit hours. This was a change from the 2011 Release, under which engaged specialists were excluded from total audit hours. One commenter on the 2013 Release suggested that including specialists in the calculation of audit hours and disclosure of persons not employed by the auditor may put firms that engage specialists at a competitive disadvantage compared to firms that employ specialists. Some commenters also expressed concerns that it may be challenging to obtain hours incurred by the specialists, especially in cases where the engagement is on a fixed-fee basis. After considering comments, the Board determined to exclude specialists engaged, not employed, by the auditor from disclosure and the computation of total audit hours.

Some commenters requested clarification regarding the treatment of audit hours related to investments accounted for using the equity method of accounting.[50] The final rules have been revised to clarify that hours incurred in the audit of entities in which the issuer has such an investment are not part of total audit hours.

---

[49] Nonetheless, the engagement quality reviewer has an important role in the audit. The engagement quality reviewer performs an evaluation of the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued, in order to determine whether to provide concurring approval of issuance. *See* AS 1220 (currently Auditing Standard No. 7).

[50] *See* Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 323, *Investments—Equity Method and Joint Ventures*.

c. Extent of Participation in the Audit—Percentage of Total Audit Hours

i. *Audit Hours as a Metric for Participation in the Audit*

Under the 2013 Release, the extent of participation in the audit would have been determined using the percentage of total audit hours as the metric.

Most commenters agreed with measurement based on the percentage of audit hours. Some commenters suggested using other metrics, including audit fees, the percentage of assets or revenue that the auditor and other participants were responsible for auditing, and the magnitude of the company's segment or subsidiary audited by the other participants.

After consideration of the comments received, the Board believes that percentage of total hours in the most recent period's audit is an appropriate and practical metric for the extent of other accounting firms' participation in the audit, for the purpose of disclosure on Form AP. Audit fees may not fairly represent the extent of other accounting firms' participation in the audit. Audit fees in the proxy disclosure may include fees for other services (for example, other regulatory and statutory filings) and may exclude fees paid directly to other accounting firms rather than to the auditor. Further, because labor rates vary widely around the world, audit fees would result in an inconsistent metric compared to audit hours. The use of revenue or assets tested may not be suitable in all circumstances, particularly when other accounting firms and the auditor perform audit procedures on the same location, business unit, or financial statement line item.

The firm should document in its files the computation of total audit hours on a basis consistent with AS 1215 (currently Auditing Standard No. 3), *Audit Documentation*.[51]

ii. *Elements of Total Audit Hours*

In general, total audit hours will be comprised of the hours of the principal auditor, nonaccounting firm participants that assist the principal auditor or other accounting firms, and other accounting firms participating in the audit. Total audit hours exclude hours incurred by the engagement quality reviewer, Appendix K reviewer,

---

[51] Under AS 1215 (currently Auditing Standard No. 3), the audit documentation should be in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand the computation of total audit hours and the method used to estimate hours when actual hours were unavailable.

specialists engaged by the auditor, internal audit, among others. *See* Section III.A.3.b.iv.

iii. *Disclosure Threshold*

The 2013 Release set 5% of total audit hours as the threshold for identification of other participants in the audit. Many commenters supported the 5% threshold. Other commenters suggested various other thresholds, such as 3%, 10%,[52] or the PCAOB's substantial role threshold of 20%.[53]

The Board's intention is to provide meaningful information to investors and other financial statement users about participants in the audit, without imposing an undue compliance burden on auditors. Based on PCAOB staff analysis of available data about the participation of other accounting firms in the audit, the Board believes using a 5% threshold would, in most cases, result in disclosing the names of other accounting firms that collectively make up most of the audit effort (measured by hours) beyond that of the firm signing the auditor's report, and would result in identification of one or two other participant(s) on average.[54] The final rule therefore retains the threshold at 5% of total

---

[52] On the 2011 Release, commenters suggested 10% to be consistent with certain requirements in accounting standards, such as the 10% of revenue threshold for disclosing sales to a single customer under FASB pronouncements. *See* FASB ASC, Topic 280, *Segment Reporting*, subparagraph 10-50-42.

[53] According to paragraph (p)(ii), "Play a Substantial Role in the Preparation or Furnishing of an Audit Report," of PCAOB Rule 1001, "[t]he phrase 'play a substantial role in the preparation or furnishing of an audit report' means—(1) to perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report, or (2) to perform the majority of the audit procedures with respect to a subsidiary or component of any issuer, broker, or dealer the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer, broker, or dealer necessary for the principal auditor to issue an audit report [on the issuer]." Under Rule 2100, each public accounting firm that "plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer, broker, or dealer must be registered with the Board."

[54] PCAOB staff analyzed information provided by auditors of more than 100 larger issuers with respect to audit engagements conducted in 2013 and 2014. The selected information included the names of other accounting firms that participated in the audit and their individual extent of participation as a percentage of the total audit hours, without using a threshold. The Board's staff used this information to determine the approximate number of other accounting firm participants in larger audit

audit hours. The final rule also requires firms to disclose the total number of other accounting firms that were individually less than 5% and their total extent of participation to provide investors and others with a complete picture of the effort by participating firms.

iv. *Presentation as a Single Number or Within a Range*

The 2013 Release would have required firms to disclose the percentage of total audit hours of other participants either as a single number or within a series of ranges. Commenters supported the ability to present the disclosure of other participants in ranges or as a single number. This requirement is being adopted in Form AP as reproposed to provide firms flexibility in completing the disclosures while providing investors and other financial statement users meaningful information about the relative extent of participation of other accounting firms and to allow firms flexibility to choose the method of presentation, i.e., as a single number or within a range, that best suits their circumstances, for all other accounting firms required to be identified.

v. *Use of Estimates*

The 2013 Release stated that auditors would be able to use estimates of audit hours when actual hours were not available. Many commenters on the 2015 Supplemental Request requested clarification that estimation of audit hours would be permitted. To respond to commenters' concerns, the instructions to Form AP provide that firms may use a reasonable method to estimate audit hours when actual hours have not been reported or are otherwise unavailable. The firm should document in its files the method used to estimate hours when actual audit hours are unavailable on a basis consistent with AS 1215 (currently Auditing Standard No. 3).

B. Liability Considerations

Throughout the Board's rulemaking process, commenters have expressed concern about the impact that public identification of key audit participants, particularly in the auditor's report, could have on the potential liability or litigation risks of those participants under the federal securities laws. The Board takes these concerns seriously and has sought comment throughout this rulemaking on various means of disclosure—from engagement partner signature on the auditor's report, to disclosure in the auditor's report, to disclosure on Form AP—in part to respond to them. The Board believes the final rule accomplishes its disclosure goals while appropriately addressing these concerns by commenters.

---

engagements that would be required to be disclosed individually using 3%, 5%, and 10% thresholds.

As noted in the 2015 Supplemental Request, some commenters on the 2013 Release suggested that identifying the engagement partner and the other participants in the audit in the auditor's report could create both legal and practical issues under the federal securities laws by increasing the named parties' potential liability and could require their consent if the auditors' reports naming them were included in, or incorporated by reference into, registration statements under the Securities Act.[55] In addition, some commenters expressed concerns about the possible effects of the engagement partner's name appearing in the auditor's report on liability and litigation risk under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. In their view, identification in the auditor's report could make it more likely that identified persons would be named in a lawsuit or could affect their liability position. Many commenters on the 2013 Release urged the Board to proceed with the new disclosure requirements, if it determined to do so, by mandating disclosure on an amended PCAOB Form 2, firm's annual report, or on a newly created PCAOB form as a means of responding to such concerns.

Other commenters stated that, in view of the PCAOB's investor protection mission, the 2013 Release gave too much weight to commenters' concerns about liability. These commenters asserted that naming the engagement partner, in itself, would not affect the basis on which liability could be founded.

The 2015 Supplemental Request solicited comment on whether disclosure on Form AP would mitigate commenters' concerns about liability-related consequences under federal or state law. While some commenters asserted that requiring disclosure on Form AP would not reduce litigation risk, others argued that there was no risk that Form AP disclosure would give rise to additional liability. Most accounting firms that commented on the issue agreed that Form AP would address some or all of their liability concerns. Several commenters asserted that the use of Form AP would eliminate the need to obtain consents under Section 7 of the Securities Act and mitigate or eliminate concerns about potential liability under Section 11 of the Securities Act. Commenter views on the impact of Form AP on potential liability under Exchange Act Section 10(b) and Rule 10b-5 were less uniform, with some saying that disclosures on Form AP would not have an impact on potential liability under Section 10(b) and Rule 10b-5, some suggesting the disclosures on Form AP would increase potential liability, and others

---

[55] Section 11 of the Securities Act imposes liability on certain participants in a securities offering, including every accountant who, with his or her consent, has been named as having prepared or certified any part of the registration statement or any report used in connection with the registration statement. Section 7 of the Securities Act requires that the consent of every accountant so named in a registration statement must be filed with the registration statement.

saying that the impact would be uncertain because of continued development of the law in the area.

The Board believes that disclosure on Form AP appropriately addresses concerns raised by commenters about liability. As commenters suggested, disclosure on Form AP should not raise potential liability concerns under Section 11 of the Securities Act or trigger the consent requirement of Section 7 of that Act because the engagement partner and other accounting firms would not be named in a registration statement or in any document incorporated by reference into one.[56] While the Board recognizes that commenters expressed mixed views on the potential for liability under Exchange Act Section 10(b) and Rule 10b-5 and the ultimate resolution of Section 10(b) liability is outside of its control, the Board nevertheless does not believe any such risks warrant not proceeding with the Form AP approach.

Finally, one commenter asserted that the Board should not pursue disclosure requirements for the engagement partner and other participants in the audit unless it can be done in a "liability neutral" way. The Board's purpose in this project is not to expose auditors to additional liability, and, consistent with that, it has endeavored to reduce any such liability consequences. The Board does not agree, however, that it should not seek to achieve the anticipated benefits of a new rule—here, increased transparency and accountability for key participants in the audit—unless it can somehow be certain that its actions will not affect liability in any way. On the whole, the Board believes it has appropriately addressed the concerns regarding liability consequences of its proposal in a manner compatible with the objectives of this rulemaking, and in view of the rulemaking's anticipated benefits.

C. Voluntary Disclosure in the Auditor's Report

The 2015 Supplemental Request solicited comment on whether, in addition to filing Form AP, auditors could voluntarily provide the same information in the auditor's report. Comments on this issue were mixed. Several commenters noted that they preferred disclosure of this information in the auditor's report, although they were willing to accept Form AP as a compromise. Another commenter stated that optionality about whether to provide disclosure in the auditor's report could also provide a signal for differentiation.

Other commenters, including almost all the accounting firms that commented, suggested that the Board should prohibit or not encourage voluntary disclosure in the

---

[56] While the requirement to file Form AP is triggered by the issuance of an auditor's report, the form would not automatically be incorporated by reference into or otherwise made part of the auditor's report.

auditor's report. They stated that voluntary disclosure in the auditor's report would give rise to the same legal and practical challenges as the previously proposed required auditor's report disclosure. Some of these commenters suggested that if the auditor chose to add disclosures in the auditor's report then related costs would also increase. Some other commenters were concerned that information in some, but not all, auditors' reports may confuse financial statement users about where to obtain the information.

The amendments will permit voluntary disclosure in the auditor's report. AS 3101 (currently AU sec. 508) is amended to permit voluntary disclosure in the auditor's report of the engagement partner and other accounting firms. AS 1205 (currently AU sec. 543) is amended to permit firms to disclose in certain circumstances that other accounting firms participated in the audit, which had been previously prohibited. Under these amendments, auditors can provide information in the auditor's report about the engagement partner, other accounting firms, or both, choosing if any information is disclosed in the auditor's report. However, Form AP will provide investors and financial statement users with all of the required disclosures.

If disclosure is made in the auditor's report about other accounting firms, the disclosure must include information about all of the other accounting firms required on Form AP, so that auditors cannot choose to include some other accounting firms and exclude others. The auditor's report must also include a statement confirming the principal auditor's responsibility for the work of other auditors and that it has supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards, to avoid potential confusion about the respective responsibilities of the principal auditor and the other accounting firms. When making these disclosures in the auditor's report, the language should be consistent with PCAOB standards. In particular, any additional language that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's responsibility for the audit or the audit opinion on the financial statements is not appropriate and may not be used.

The Board is also adopting amendments to AS 1205 (currently AU sec. 543) to remove, as unnecessary, the requirement to obtain express permission of the other accounting firm when deciding to disclose the firm's name in the auditor's report when responsibility for the audit is divided with another firm.[57] Because the SEC rules already include a requirement that the auditor's report of the referred-to firm should be filed with the SEC, the name of the firm is already made public.[58]

---

[57] *See* AU sec. 1205.03, .06–.09 (currently AU sec. 543.03, .06-.09).

[58] *See* Rule 2-05 of Regulation S-X, 17 CFR 210.2-05.

Allowing voluntary disclosure in the auditor's report responds to some investors' preference regarding location and timing for disclosures. Some auditors may choose to make the disclosures in the auditor's report, and this might provide auditors a way to differentiate themselves. Auditors are not required to include anything in the auditor's report and would presumably do so only if they choose, taking into account, for example, any costs associated with disclosure in the auditor's report, such as obtaining consents pursuant to the Securities Act, if required, and the resulting potential for liability. Inconsistency across auditor's reports should not be a source of concern because complete data will be available on the PCAOB's website as a result of mandatory disclosures on Form AP for all issuer audits.

D. Filing Requirements

1. Filing Deadline

The 2015 Supplemental Request contemplated a filing deadline for Form AP of 30 days after the date the auditor's report is first included in a document filed with the SEC, with a shorter deadline of 10 days for initial public offerings ("IPOs"). This period was intended to balance the time needed to compile the required information, particularly for firms that submit multiple forms at the same time, with investor preference that the information be made available promptly.

Comments on the filing deadline were mixed. Some commenters preferred a shorter filing deadline, suggesting that the form should be filed concurrently with the issuance of the auditor's report or within 10 days of initial SEC filing, similar to the deadline for IPOs. In their view a shorter deadline would make it more likely that the information would be available for investors to consider in connection with their voting and investment decisions.

Other commenters suggested a longer filing deadline, which would provide firms with additional time to gather the information. Some of these commenters also indicated that with a longer deadline the information regarding the extent of participation of other accounting firms would be more accurate, requiring less estimation. These commenters suggested several alternative deadlines, including:

- 45 days after the report issuance, to coincide with the documentation completion date;[59]

---

[59] AS 1215 (currently Auditing Standard No. 3) requires that a complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date.

- 60 days after report issuance, which would include the 45-day documentation completion date plus extra time to gather the information;

- Monthly filings, due, for example, at the end of the month subsequent to inclusion in an SEC filing; and

- Quarterly or annual filings.

There were very few comments on the IPO deadline. Of those that commented, most considered the 10-day filing deadline to be appropriate, while some other commenters suggested the deadline be extended, for example to 14 days.

After considering comments, the Board believes the information on Form AP should be made available so that it is useful to investors, while also affording firms sufficient time to compile the necessary information. For audits of non-IPOs, a key consideration is making the identity of the engagement partner publicly available before the shareholder vote to ratify the appointment of the auditor. For audits of IPOs, a key consideration regarding timing is ensuring that the information is available before any IPO roadshow, if applicable.

Taking into account investors' preference for timely access to the information together with commenter suggestions to provide firms with sufficient time to file Form AP, the Board has modified the deadline for filing Form AP to be 35 days after the date the auditor's report is first included in a document filed with the SEC. Based on PCAOB staff's analysis of available data regarding the timing of annual shareholders' meetings, the Board believes that this filing deadline would likely allow information to be provided to investors prior to the annual shareholders' meeting in most cases, thus making the information available in time to inform voting decisions.[60] Filing deadlines of 45 days or greater may not achieve the intended benefits of providing investors with timely information. Firms have the ability to file Form APs in batches, so that firms that prefer to file periodically (for example, every month or twice a month) will be able to do so.

The deadline for filing Form AP in an IPO situation is adopted as contemplated in the 2015 Supplemental Request, as 10 days after the auditor's report is first included in a document filed with the SEC. This deadline is intended to facilitate making the information available prior to the IPO roadshow, if applicable. The text of the rule has been simplified and clarified.

---

[60] While there is no requirement under federal securities laws for an issuer to have an annual meeting of shareholders and therefore no uniform deadline for such a meeting, PCAOB staff review indicates that approximately 98% of annual meetings are held 35 days or later after the date of the auditor's report.

2. Other Filing Considerations

Many firms commenting on the 2015 Supplemental Request requested additional clarification or guidance about how Form AP requirements would apply in particular circumstances, such as filing requirements for reissued auditor's reports and reporting on mutual fund families, the allocation of audit hours between audits of consolidated financial statements and statutory audits of issuer subsidiaries, and batch filing of Form APs. Some commenters recommended Form AP include other information, such as notification of a change in the engagement partner.

Form AP provides information only about completed audits, so there is no requirement to file in connection with interim reviews (although the hours incurred for interim reviews are included in total audit hours).[61] Form AP is required to be amended only when there was an error or omission in the original submission. Changes from one year to the next (for example, a change in engagement partner from the one assigned in the prior year) do not necessitate an amendment and are reflected on a Form AP that will be filed when the next auditor's report is issued.

If the auditor's report is reissued and dual-dated, a new Form AP is required even when no information on the form, other than the date of the report, changes.[62] If the auditor's report date in Form AP matches the date on the auditor's report, users will be able to match the auditor's report with the related Form AP. To clarify the filing requirements for reissued reports, a note has been added to Rule 3211. The note provides that the filing of a report on Form AP regarding an audit report is required only the first time the audit report is included in a document filed with the Commission. Subsequent inclusion of precisely the same audit report in other documents filed with the Commission does not give rise to a requirement to file another Form AP. In the event of any change to the audit report, including any change in the dating of the report, Rule 3211 requires the filing of a new Form AP the first time the revised audit report is included in a document filed with the Commission.

---

[61] In addition, Form AP would not be required to be filed in connection with attestation engagements, for example, compliance with servicing criteria pursuant to SEC Rule 13a-18—Regulation AB.

[62] For example, if a previously issued audit report is reissued and dual-dated to refer to the addition of a subsequent events note in the financial statements, a new Form AP filing would be required. When completing the new form, the firm should consider if any other information should be changed, including information regarding the participation of other accounting firms.

For audits of mutual funds, Form AP permits one form to be filed in cases where multiple audit opinions are included in the same auditor's report—such as in the case for mutual fund families. If multiple audit opinions included on the same auditor's report involved different engagement partners, a Form AP would be filed for each engagement partner, covering the audit opinions for the funds for which he or she served as engagement partner.

When actual hours are not available, auditors may estimate audit hours for purposes of calculating the extent of participation of other accounting firms. This situation may arise, for example, in the context of statutory audits. Accounting firms that participate in audits of multinational issuers often perform local statutory audits of subsidiaries in addition to their participation in the issuer's audit. The materiality threshold and legal requirements for the statutory audit may necessitate a different level of work than would have been required for the issuer's audit. In these cases, it may be difficult for the auditor to determine how much work performed at the subsidiary relates solely to the participation in the issuer's audit. The auditor may use a reasonable method to estimate the components of this calculation, such as 100% of actual hours incurred by other accounting firms during the issuer's audit or estimating the hours incurred by the other accounting firm participating to perform work necessary for the issuer's audit.

To ease compliance, firms must, unless otherwise directed by the Board, file Form AP through the PCAOB's existing web-based Registration, Annual, and Special Reporting system ("RASR") using the username and password they were issued in connection with the registration process.[63] The system requirements for filing Form AP are similar to the system requirements for filing annual and special reports with the PCAOB.

Some accounting firms commented that they would like the ability to file Form APs in batches to reduce their administrative burden. Some of these firms also stated that they would like the ability to file information about more than one audit report on a single Form AP. As described in the 2015 Supplemental Request, the Board has developed a template, also known as a schema, that will allow firms to submit multiple forms simultaneously using an extensible markup language ("XML"). Firms will be able to submit multiple forms simultaneously in a batch when utilizing the schema provided by the Board. Unlike other PCAOB forms, the schema for Form AP will enable firms to complete the entire form using XML rather than only portions of it. After considering

---

[63] Form AP is not required to be filed for audit reports issued in connection with non-issuer audits, even when those audits are conducted in accordance with PCAOB standards.

commenters' concerns and the technological constraints of RASR, no changes were made regarding the ability to file information about more than one audit report on a single Form AP.

Form APs filed with the Board will be available on the Board's website. The Board's website will allow users to search Form APs by engagement partner, to find the audits of issuers that he or she led, and by issuer, to find the engagement partner and other accounting firms that worked on its audit. Over time, the PCAOB anticipates enhancing the search functionality and plans to allow users to download search results. The information filed on Form AP is anticipated to be available on the Board's website indefinitely.

A commenter noted that there would be a potential redundancy between Form AP and the list of audit clients and audit reports required on Form 2, and suggested that the Board consider eliminating the Form 2 requirement. After considering the commenter's concern and evaluating the potential redundancies, the Board has determined not to amend Form 2 at this time. While some information on Form 2 does overlap with Form AP, more information is collected on Form 2 than would be filed on Form AP; for example, Form 2 also requires the dates of any consents to an issuer's use of an auditor's report previously issued.

One commenter suggested that Form AP allow a firm to assert that it cannot provide information called for by Form AP without violating non-U.S. laws, which would make Form AP consistent with other forms filed with the Board. The Board is committed to cooperation and reasonable accommodation in its oversight of registered non-U.S. firms, and has provided non-U.S. firms the opportunity to at least preliminarily withhold some information from required PCAOB forms on the basis of an asserted conflict with non-U.S. laws. Generally, the Board has not provided for firms to assert such a conflict with respect to all information required by PCAOB forms. In considering whether to allow the opportunity to assert conflicts, the Board has considered both whether it is realistically foreseeable that any law would prohibit providing the information and, even if it were realistically foreseeable, whether allowing a firm preliminarily to withhold the information is consistent with the Board's broader responsibilities and the particular regulatory objective.[64] In addition, even where the Board has allowed registered firms to assert legal conflicts in connection with Forms 2, 3, and 4, that accommodation does not entail a right for a firm to continue to withhold the information if it is "sufficiently important."[65] In this case, nothing has been brought to the Board's attention indicating a

---

[64] *See, e.g.*, *Rules on Periodic Reporting by Registered Public Accounting Firms*, PCAOB Release No. 2008-004 (June 10, 2008), at 36–38.

[65] *See id.* at 37–38 n.38.

realistic possibility that any law would prohibit a firm from providing the information, and the information is categorically of sufficient importance that the Board sees no reason to allow a firm to withhold it on the basis of an asserted conflict.

The 2015 Supplemental Request proposed to apply PCAOB Rule 2204, *Signatures*, to Form AP. Application of the rule would have required firms to electronically sign and certify and retain manually signed copies of Form APs filed with the Board. Some commenters identified the manual signature requirement as an administrative burden that would be time consuming and costly. After considering these views, the Board determined to simplify the requirements for Form AP. Firms will be required to have each Form AP signed on behalf of the Firm by typing the name of the signatory in the electronic submission, but there is no requirement for manual signature or retention of manually signed or record copies.

IV. Economic Considerations

The Board is mindful of the economic impacts of its standard setting. The following discussion addresses in detail the potential economic impacts, including potential benefits and costs, most recently considered by the Board. The Board has requested input from commenters several times over the course of the rulemaking. Commenters provided views on a wide range of issues pertinent to economic considerations, including potential benefits and costs, but did not provide empirical data. The potential benefits and costs considered by the Board are inherently difficult to quantify, therefore the Board's economic discussion is qualitative in nature.

Commenters who commented specifically on the economic analysis in the Board's 2015 Supplemental Request provided a wide range of views. Some commenters provided academic research in support of their views for the Board to consider. Some commenters expressed concern that the economic analysis in the Board's 2015 Supplemental Request was unpersuasive or incomplete. Other commenters said that the Board's economic analysis carefully reviewed the relevant evidence on the potential costs and benefits attributable to the disclosures. The Board has considered all comments received and has sought to develop an economic analysis that evaluates the potential benefits and costs of mandating the disclosures in Form AP, as well as facilitates comparisons to alternative approaches.

A. Need for Mandatory Disclosure

There exists an information asymmetry[66] between users of the financial statements and management about the company's performance, and high quality

---

[66] Economists often describe information asymmetry as an imbalance, where one party has more or better information than another party.

financial information can help mitigate this information asymmetry. Audit quality matters to users of the financial statements, because audit quality is a component of financial reporting quality, in that high audit quality increases the credibility of financial reports. Thus, better knowledge of audit quality can help mitigate the information asymmetry between users of the financial statements and management about company performance.

Users of financial statements are generally not in a position to observe the quality of the audit of a public company or the factors that drive audit quality. In addition to relying on the audit committee, which, at least for listed companies, is charged with overseeing the external auditor, users of financial statements may rely on proxies such as the reputation of the accounting firm issuing the auditor's report, aggregated measures of auditor expertise (for example, dollar value of issuer market capitalization audited or audit fees charged), or information about the geographic location of the office where the auditor's report was signed as a signal for audit quality.[67] Users of financial statements could seek to reduce the degree of information asymmetry between them and management by gathering information about the skills, expertise, and independence of the engagement partner and firms that participate in the audit.

The Board is considering a number of ways to provide more information related to audit quality. In addition to the disclosures of the engagement partner and certain audit participants mandated in Form AP, these efforts include formulation of a series of audit quality indicators, a portfolio of quantitative measures that may provide new insights into how quality audits are achieved.[68] The Board is also considering a standard that would update the form and content of the auditor's report to make it more relevant and informative by, among other things, including communication of critical audit matters.[69] The Board intends that, over time, these and other efforts will provide investors and other financial statement users with additional information they can use when evaluating audit quality. When used in conjunction with other publicly available data (including any audit quality indicators that are made publicly available), the name of the engagement partner and information about other participants in the audit, collectively, could provide more information about audit quality.

---

[67] *See, e.g.*, Linda Elizabeth DeAngelo, *Auditor Size and Audit Quality*, 3 Journal of Accounting and Economics 183 *passim* (1981); and Jere R. Francis, *What Do We Know About Audit Quality?*, 36 The British Accounting Review 345 *passim* (2004).

[68] *See* PCAOB Release No. 2015-005.

[69] *See* PCAOB Release No. 2013-005.

PCAOB oversight activities have revealed that audit quality varies among engagement partners within the same firm. PCAOB oversight activities also reveal variations in audit quality among firms, including variations among firms in the global networks established by large accounting firms. In addition to a number of other factors, the PCAOB uses information about engagement partners and other participants in the audit to identify audit engagements for risk-based selections in its inspections program. Academic research also analyzes variations in audit quality at both the firm and engagement partner levels.[70] These findings suggest that firm reputation is an imprecise signal[71] of audit quality because engagement partners and other audit participants differ in the quality of their audit work.

---

[70] *See, e.g.*, W. Robert Knechel, Ann Vanstraelen, and Mikko Zerni, *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*, 32 Contemporary Accounting Research 1443 (2015); Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, *Capital Market Consequences of Audit Partner Quality*, 90 The Accounting Review 2143 (2015); and Carol Callaway Dee, Ayalew Lulseged, and Tianming Zhang, *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings*, 90 The Accounting Review 1939 (2015). Professors Dee and Aobdia are former and current research fellows at the PCAOB. Their research cited above was undertaken prior to joining the PCAOB. On the point of whether audit quality varies within accounting firms, a commenter suggested additional research to consider. *See* Steven F. Cahan and Jerry Sun, *The Effect of Audit Experience on Audit Fees and Audit Quality*, 30 Journal of Accounting, Auditing and Finance 78 (2015) (clients of more experienced CPAs have lower absolute discretionary accruals than clients of less experienced CPAs); Kim Ittonen, Karla Johnstone, and Emma-Riikka Myllymäki, *Audit Partner Public-Client Specialisation and Client Abnormal Accruals*, 24 European Accounting Review 607 (2015) (a significant negative association between greater public-client specialization and absolute abnormal accruals); and Ferdinand A. Gul, Donghui Wu, and Zhifeng Yang, *Do Individual Auditors Affect Audit Quality? Evidence from Archival Data*, 88 The Accounting Review 1993 *passim* (2013) (individual audit partners affect audit quality in ways that are both economically and statistically significant).

[71] Information economics frequently treats information as consisting of two components: a signal that conveys information and noise which inhibits the interpretation of the signal. Precision is the inverse of noise so that decreased noise results in increased precision and a more readily interpretable signal. *See*, *e.g.*, Robert E. Verrecchia, *The Use of Mathematical Models in Financial Accounting*, 20 Journal of Accounting Research 1 *passim* (1982).

The difficulty that investors and other financial statement users have in evaluating audit quality may have important effects for accounting firms and the functioning of the audit profession and capital markets.[72] The capacity to differentiate between alternative products is a fundamental requirement of competitive markets.[73] One way to improve the functioning of a market is to provide mechanisms that enable market participants to better evaluate quality, thereby reducing the degree of information asymmetry.

Mandating public disclosure of the name of the engagement partner and other accounting firms that participated in an audit provides financial markets with information that may have otherwise been more costly or difficult to obtain. It enables the development of a standardized and comprehensive source of data that can facilitate comparison and analysis, which would be more valuable than a potentially piecemeal data source that could develop under a voluntary disclosure regime. Mandating public disclosure also assures that the information is accessible to all market participants, so that any value-relevant information can more readily be incorporated into market prices.

This information may influence investors' decisions and allow them to make better informed investment decisions. The disclosure of information may also lead the identified parties to change their behavior because they know their performance can be more broadly and easily observed by investors and other financial statement users. In general, an important feature of accountability is identifiability.[74] In the context of the audit, transparency will allow market participants to separately identify auditors from the

---

[72] There is a long stream of research regarding the effects that information asymmetry about product features, such as quality, and disclosure have on markets. *See, e.g.*, George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 84 The Quarterly Journal of Economics 488 *passim* (1970); and Robert E. Verrecchia, *Essays on Disclosure*, 32 Journal of Accounting and Economics 97 (2001).

[73] *See, e.g.*, George J. Stigler, *Perfect Competition, Historically Contemplated*, 65 The Journal of Political Economy 1 *passim* (1957).

[74] Academic research finds that accountability is a complex phenomenon and is affected by numerous factors. *See, e.g.*, Jennifer Lerner and Philip Tetlock, *Accounting for the Effects of Accountability*, 125 Psychological Bulletin 255 *passim* (1999). *See also* Todd DeZoort, Paul Harrison, and Mark Taylor, *Accountability and Auditors' Materiality Judgments: The Effects of Differential Pressure Strength on Conservatism, Variability, and Effort,* 31 Accounting, Organizations and Society 373 (2006).

accounting firm signing the auditor's report. This disclosure will impose incremental reputation risk, which should, at least in some circumstances, lead to increased accountability because the ability for investors and other financial statement users to identify and evaluate the performance of engagement partners and other accounting firms may induce changes in behavior.

Because of the influence that engagement partners and other accounting firms participating in the audit can exert over the audit process, information about the people and entities who actually performed the audit of a particular company will be a useful addition to the mix of information related to the audit that investors can use to assess audit quality and hence credibility of financial reporting. As identifying information becomes publicly available, it could also provide a further incentive to engagement partners and other accounting firms that participate in the audit to develop and enhance a reputation for providing reliable audits and to avoid being associated with adverse audit outcomes that could be attributed to deficiencies in their audit work.[75]

Under the disclosures adopted by the Board, investors would gain additional information that could help them assess the reputation of not only the firm, but also of the engagement partner on the audits of companies in which they invest, which they can use as a signal for audit quality. Likewise, investors will have visibility into the extent of the audit work being performed by other accounting firms that participated in the audit, including accounting firms in jurisdictions where the PCAOB has been unable to conduct inspections. Collectively, the disclosures, when used in conjunction with other publicly available data, can facilitate investors' ability to assess audit quality and hence credibility of financial reporting by providing investors with information about who conducted the audit and the extent to which the accounting firm signing the auditor's report used the audit work performed by other accounting firms.

Although the disclosure of the name of the engagement partner might provide limited information initially, experience in other countries suggests that over time the disclosures would enable databases to be developed that would allow investors and other financial statement users to evaluate a number of data points about the engagement partner,[76] including:

---

[75] Adverse audit outcomes may include financial statement restatements for errors, nontimely reporting of internal control weaknesses, and nontimely reporting of going concern issues, among others.

[76] For example, the Taiwan Economic Journal collects data that covers all public companies in Taiwan and includes, among other things, the names of the

- Number and names of other issuer audits for which the partner is the engagement partner;
- Industry experience of the engagement partner;
- Number and nature of restatements of financial statements for which he or she was the engagement partner;
- Number and nature of going concern report modifications on financial statements for which he or she was the engagement partner;
- Number of auditors' reports citing a material weakness in internal control over financial reporting where he or she was the engagement partner;
- Number of years as the engagement partner of a particular company;
- Disciplinary proceedings and litigation in which the engagement partner was involved; and
- Other information about the engagement partner in the public domain, such as education, professional titles and qualifications, and association memberships.

Additional databases may also develop about other accounting firms that participate in public company audits, and additional data points should contribute to the mix of information that investors would be able to use, such as:

- The extent of the audit performed by the firm signing the auditor's report;
- The extent of participation in the audit by other accounting firms in other jurisdictions, including jurisdictions in which the PCAOB cannot currently conduct inspections;[77]
- Whether the other accounting firms are registered with the PCAOB, have been inspected, and the inspection results, if any;

---

engagement partners, the accounting firms issuing auditors' reports, the regulatory sanction history of the partners, and the audit opinions.

[77] *See Non-U.S. Firm Inspections* on the PCAOB's website for information about firms in non-U.S. jurisdictions that deny PCAOB inspection access.

- Industry experience of the other accounting firms;
- Whether the other accounting firms belong to a global network;
- Trends and changes in the level of participation of other accounting firms in the audit work; and
- Disciplinary proceedings and litigation involving the other accounting firms.

These data points, when analyzed together with the audited financial statements, potential audit quality indicators, and information provided on Form AP, should provide investors with more information about the audit and, therefore, the reliability of the financial statements. As a result, this should reduce the degree of information asymmetry about financial reporting quality between investors and company management.

Providing investors with data at this level of specificity will add to the mix of information that they can use. This could induce changes in the market dynamics for audit services because investors would have additional information about the identity of engagement partners and other accounting firms participating in the audit. If investors are able to identify certain engagement partners and other accounting firms that participated in the audit who consistently perform high-quality audit work, the companies audited by these engagement partners and other accounting firms should benefit from a lower cost of capital relative to those companies whose auditor's performance record suggests a higher risk.[78]

As some engagement partners and other accounting firms that participated in the audit develop a reputation for performing reliable audits, a further incentive may develop for others to attract similarly favorable attention. Conversely, as some engagement partners and other accounting firms are associated with adverse audit outcomes that could be attributed to deficiencies in their audit work, others may have additional incentives to perform audits that comply with applicable standards in order to avoid

---

[78] There is an emerging body of academic research analyzing market reactions to disclosure of the engagement partner and the firms participating in audits. *See* Knechel et al., *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*; Aobdia et al., *Capital Market Consequences of Audit Partner Quality*; and Dee et al., *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings*.

similar association.[79] The disclosures may also create additional incentives for audit committees to engage auditors with a reputation for performing reliable audits. As a result, the disclosures may also promote increased competition based on audit quality.

1. Baseline

Current PCAOB rules and standards do not require registered firms to publicly disclose the name of the engagement partner or information about other accounting firms participating in the audit. The identity of the engagement partner is known by people close to the financial reporting process, for example by company management and the audit committee, that interact directly with the engagement partner. Additionally, auditors are required to communicate to the audit committee certain information about other accounting firms and other participants in the audit.[80]

Today, the name of the engagement partner is disclosed in auditors' reports filed with the SEC in only a small percentage of cases, such as when the audit is conducted by a firm having only one certified public accountant whose name appears in the firm's name or by a foreign firm in a jurisdiction in which local requirements or practice norms dictate identification of the engagement partner. The identity of the engagement partner is also sometimes made available to investors attending an annual shareholders' meeting in person. It is possible that engagement partners could be identified in other ways; for example, an academic study inferred that in instances where accounting firm personnel are copied on issuers' correspondence with the SEC's Division of Corporation Finance, the copy party is the engagement partner.[81] However, because there is no current requirement to disclose information about engagement partners, the process of acquiring this information may be costly and the information may be less useful relative to a database that covers audits across time and is available to all interested users.

---

[79] The unintended consequence of engagement partner disclosure creating an incentive for some engagement partners to avoid challenging an aggressive accounting treatment in an effort to protect their reputations is discussed in Section B.2.b.iv.

[80] For example, the auditor is required to communicate the names, locations, and planned responsibilities of other independent public accounting firms or other persons not employed by the auditor that perform audit procedures. *See* paragraph 10.d of AS 1301 (currently Auditing Standard No. 16), *Communications with Audit Committees*.

[81] *See* Henry Laurion, Alastair Lawrence, and James Ryans, *U.S. Audit Partner Rotations* (Sept. 14, 2015) (working paper, available in Social Science Research Network ("SSRN")).

With respect to other accounting firms participating in the audit, AS 1205.04 (currently AU sec. 543.04) has prohibited principal auditors from disclosing in the auditor's report the involvement of other accounting firms that participated in the audit unless responsibility for the audit has been divided.[82] However, investors and other financial statement users have been able to obtain information about a limited subset of other accounting firms from PCAOB Form 2.[83]

There are no other current requirements under which the identity of other accounting firms participating in the audit would be publicly disclosed and, to the Board's knowledge, firms generally do not make such information public.[84]

B. The Impact of Disclosure

The final rules adopted by the Board impact certain participants in the audit, financial statement users, and companies to the extent that this information is currently not publicly available and affects participants' decision making. As discussed below, not all of these market participants are affected in the same ways or to the same degree.

---

[82] The sentence in AS 1205.04 (currently AU sec. 543.04) that states that if the principal auditor decides not to make reference to the work of other auditors, the principal auditor "should not state in his report that part of the audit was made by another auditor because to do so may cause a reader to misinterpret the degree of responsibility being assumed" is deleted under the amendments. In the Board's view, the language included on Form AP clearly states the auditor's responsibility regarding the work of other participants in the audit and should not cause financial statement users to misinterpret or be confused about the degree of responsibility being assumed by the accounting firm signing the auditor's report.

[83] PCAOB Form 2 requires independent public accounting firms that audited no issuers during the applicable reporting period to provide information on each issuer for which they "play[ed] a substantial role in the preparation or furnishing of an audit report," as defined by PCAOB Rule 1001(p)(ii).

[84] Item 9(e)(6) of Schedule 14A (17 CFR 240.14a-101) requires disclosure of the percentage of hours expended on the audit of the financial statements for the most recent fiscal year by persons other than the principal accountant's full-time, permanent employees, if greater than 50% of total hours, but does not require identification of such persons.

1. The Benefits of Disclosure

The final rules adopted by the Board aim to improve the transparency and accountability of issuer audits by adding to the mix of information available to investors. Among other things, the disclosures would allow investors to research whether engagement partners have been associated with adverse audit outcomes that could be attributed to deficiencies in their audit work or have been sanctioned by the PCAOB or SEC. The disclosures could also allow financial statement users to understand how much of the audit was performed by the firm issuing the report and how much was performed by other accounting firms, including those in jurisdictions where the PCAOB has been unable to conduct inspections. Moreover, as the disclosed information accumulates and is aggregated and analyzed in conjunction with other publicly available information, investors and financial intermediaries (for example, research analysts and credit rating agencies) would have a basis to evaluate additional data points, together with the information disclosed on Form AP, that may give them insight into individual audits. While this information may not be useful in every instance or meaningful to every investor, as discussed in more detail below, academic research suggests that, overall, the disclosures add to the mix of information used by investors.[85]

Disclosures regarding the engagement partner and the other accounting firms that participated in the audit would allow investors and other financial statement users to supplement the accounting firm's name with more granular information when assessing audit quality and hence the credibility of financial reporting. The disclosed information will provide investors and other financial statement users with more information about individual audits in accounting firms that conduct a large number of issuer audits. This information should be particularly valuable to investors where there is a greater degree of information asymmetry, as may be the case for smaller and less seasoned public companies.

The new disclosures should, at least in some circumstances, also increase accountability for auditors through Justice Brandeis' "disinfectant" effect: disclosure of their names, when accompanied by other information about their history, should create incentives for the engagement partner and other accounting firms to take voluntary steps that could result in improved audit quality. The additional incentives likely will be a result of Form AP disclosures imposing additional reputation risk on engagement

---

[85] *See, e.g.*, Knechel et al., *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*; Aobdia et al., *Capital Market Consequences of Audit Partner Quality*; and Dee et al., *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings*.

partners and other accounting firms. The effect on accountability is not expected to be uniform across all engagement partners and other accounting firms.

a. Transparency

The PCAOB uses various data, including information about engagement partners and other accounting firms, to identify audit engagements for its risk-based inspections program. Over time, financial statement users would be able to combine the disclosed information with other financial information, such as any previous adverse audit outcomes that could be attributed to deficient audit work, which would allow them to better assess the quality of individual audits. For example, investors and other financial statement users would be able to observe whether financial statements audited by the engagement partner have been restated or whether the engagement partner has been sanctioned by the PCAOB or SEC, and investors and other financial statement users could also research other publicly available information about the engagement partner.

Commenters provided mixed views regarding the usefulness of the disclosures. While some commenters argued that the information would not be useful or could be confusing,[86] other commenters indicated that this information may be useful for investment decisions and decisions about whether to ratify the appointment of an accounting firm. On the point of whether investors may misunderstand the role of engagement partners, for example, a commenter cited academic research suggesting that, "…investors process public information in a sophisticated manner and investor responses to public disclosures cause relevant information to be reflected in security prices."[87]

---

[86] *See* Sections III.A.2 and III.A.3 for a discussion of commenter reactions to the disclosure requirements.

[87] *See* Letter from Maureen McNichols, Marriner S. Eccles Professor of Public and Private Management and Accounting, Stanford University Graduate School of Business, to the Office of the Secretary, PCAOB (Aug. 31, 2015). The commenter references several academic papers in support of the argument that investors are able to incorporate information into security prices. See Maureen McNichols, *Evidence of Informational Asymmetries from Management Earnings Forecasts and Stock Returns*, 64 The Accounting Review 1 (1989) (The differential response to forecasts which are ex post too high or too low indicates that, in the aggregate, investors do not take management forecasts at face value.), or Maureen F. McNichols and Stephen Stubben, *The Effect of Target-Firm Accounting Quality on Valuation in Acquisitions*, 20 Review of Accounting Studies 110 (2015) (accounting information helps mitigate information asymmetry between acquirers and target firms).

i. *Disclosure Regarding the Engagement Partner*

Other countries have adopted or may soon adopt requirements to disclose the name of the engagement partner.[88] Experiences from countries that have already adopted similar disclosure requirements are important in assessing possible consequences, intended or not, of any changes in this area. Recent academic research conducted using data from those jurisdictions has studied how investors and other financial statement users use the information to assess audit quality, and hence credibility of financial reporting. Disclosures of this type have been found to have informative value in other settings, and empirical studies using data from the jurisdictions where the disclosures are available, discussed below, suggest that these disclosures would be useful to investors and other financial statement users. However, in considering the implications of these studies for the audits under the Board's jurisdiction, the Board has been mindful, as some commenters suggested, of the specific characteristics of the U.S.-issuer audit market, which may make it difficult to generalize observations made in other markets. For example, results from non-U.S. studies may depend on different baseline conditions (for example, market efficiency, affected parties, policy choices, legal environment, or regulatory oversight) than prevail in the United States.

Several studies have examined whether engagement partner disclosure requirements affect the price of securities and promote a more efficient allocation of capital. Knechel et al. found "considerable evidence that similar audit reporting failures persist for individual partners over time" and that, in Sweden, where engagement partners' names are disclosed, "the market recognizes and prices differences in audit reporting style among engagement partners" of public companies.[89]

In a critique that will be published alongside the original manuscript, Kinney described several issues that challenge the validity of the results from the Knechel et al. paper.[90] In particular, Kinney argued that it may be difficult to generalize the results from the Knechel et al. paper because many of the results from the original paper were obtained using data on private companies that undergo statutory audits under Swedish law. In addition, Kinney argued that the accuracy of going concern evaluations is a

---

[88] *See* Section II.B.

[89] *See* Knechel et al., *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*.

[90] *See* William R. Kinney, *Discussion of "Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*," 32 Contemporary Accounting Research 1479 (2015).

relatively poor measure of audit quality compared to financial statement misstatements. Kinney also noted that the Knechel et al. paper does not attempt to control for the effects of the mechanism by which audit partners are assigned to specific engagements. Kinney argued that if accounting firms assign high-quality audit partners to risky audit engagements, then the results from the Knechel et al. paper would have the opposite interpretation. Ultimately, Kinney argued that it may be inappropriate to conclude that engagement partner names would provide useful information to U.S. financial markets based on evidence obtained from the available studies.[91]

Other papers using data from foreign jurisdictions also analyze whether capital markets react to data on engagement partner quality and experience. For example, Aobdia et al. used data from Taiwan and found that both debt and equity markets priced engagement partners' quality, where higher quality is measured by the companies' lower level of discretionary accruals.[92] Results are similar when the authors used regulatory sanctions history as an alternate measure of engagement partner quality, which they argue is less subject to measurement error than estimates of discretionary accruals. This result partially addresses the concerns raised in Kinney's discussion paper about using discretionary accruals as a measure of audit quality.[93] Evidence from another study using data from Taiwan is consistent with these results.[94]

---

[91] Kinney suggests that other papers referenced in the Board's 2013 release could benefit from additional effort to bolster the validity of the research methodologies. For example, Kinney suggested that the authors of these papers could work with accounting firms to compare the proxies for audit quality used in academic research, such as discretionary accruals or the accuracy of going concern evaluations, with the accounting firms' proprietary assessment of engagement partner quality. The Board recognizes that discretionary accruals and the accuracy of going concern evaluations are only proxies for audit quality. However, a recent academic study has assessed the validity of commonly used proxies for audit quality by analyzing their associations with PCAOB inspection findings, which may be a more precise measure of audit quality. *See* Daniel Aobdia, *The Validity of Publicly Available Measures of Audit Quality: Evidence from the PCAOB Inspection Data* (June 30, 2015) (working paper, available in SSRN).

[92] *See* Aobdia et al., *Capital Market Consequences of Audit Partner Quality*.

[93] *See* Kinney, *Discussion of "Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions."*

[94] *See* Wuchun Chi, Linda A. Myers, Thomas C. Omer, and Hong Xie, *The Effects of Audit Partner Pre-Client and Client-Specific Experience on Audit Quality and on Perceptions of Audit Quality* (Jan. 2015) (working paper, available in SSRN) (Auditor

Another paper using data from Taiwan found that recent financial statement restatements disclosed by an engagement partner's client are associated with a higher likelihood of that engagement partner's other clients misstating in the current year.[95] However, the authors find that this effect was mitigated by the engagement partner's experience. Although these results are based on evidence from a non-U.S. jurisdiction, they suggest that the disclosures could provide investors with useful information about the reliability of other financial statements audited by individual engagement partners who have been associated with a recent financial statement restatement.

The limited research on engagement partner identification in the United States provides some support that the name of the engagement partner may be used as a signal of audit quality. Using data collected from SEC comment letters, Laurion et al. find substantial increases in the number of material restatements of previously issued financial statements and total valuation allowances after engagement partner rotations.[96] While the authors do not explicitly analyze potential benefits related to engagement partner disclosure, they argue that engagement partner disclosures would reveal partner rotations, thus providing meaningful information to investors, supporting the PCAOB's rulemaking initiative.

The Board believes that a requirement to disclose the name of the engagement partner may provide useful information to financial markets based on extensive public outreach and its own experience conducting its inspection program. The Board notes that it may not be possible to generalize results of academic studies, including those based on data in foreign jurisdictions. However, the papers discussed above typically

---

experience is an important factor in determining audit quality and the perceived level of audit quality as measured by the bank loan interest rate spread).

[95] *See* Wuchun Chi, Ling Lei Lisic, Linda A. Myers, and Mikhail Pevzner, *Information in Financial Statement Misstatements at the Engagement Partner Level: A Case for Engagement Partner Name Disclosure?* (Jan. 2015) (working paper, available in SSRN). There is an additional paper with similar results about the effects of engagement partner performance history and the likelihood of restatement. *See also* Yanyan Wang, Lisheng Yu, and Yuping Zhao, *The Association between Audit-Partner Quality and Engagement Quality: Evidence from Financial Report Misstatements*, 34 Auditing: A Journal of Practice and Theory 81 (2015).

[96] *See* Laurion et al., *U.S. Audit Partner Rotations*. Engagement partner rotation was inferred from changes in accounting firm personnel copied on issuer correspondence with the SEC's Division of Corporation Finance.

find evidence consistent with a broad stream of academic literature demonstrating that markets benefit from more information associated with quality.

ii. *Disclosure Regarding Other Participants in the Audit*

Empirical evidence also suggests that the market values information about other participants in the audit. Dee et al. examined the effect on issuers' stock prices[97] when investors learn (from participating auditors' Form 2 filings) that these issuers' audits included the substantial use of other accounting firms that do not audit other issuers. Using event study methodology, the authors find that, when accounting firms disclosed in Form 2 the identity of issuer audits in which they substantially participated, the stock prices of these issuers were negatively affected. The authors also find that earnings surprises for these issuers are less informative to the stock market after these disclosures in Form 2 are made, meaning that investors perceive earnings quality to be lower.[98] The authors concluded that the results of the study suggested "that PCAOB mandated disclosures by auditors of their significant participation in the audits of issuers provides new information, and investors behave as if they perceive such audits in which other participating auditors are involved negatively." It should be noted that the negative market reaction in this instance may, at least to some extent, reflect the fact that the other participants in the study were auditors that have no issuer clients themselves but play a substantial role (*i.e.*, participate at least 20%) in an audit of an issuer. The disclosures being adopted would also apply to other accounting firms that take a smaller role in the audit and/or may have more experience in the application of PCAOB standards to audits of issuers. Market reaction to disclosures regarding these types of participants may differ.

To the extent that investors and other financial statement users are better able to assess the level of audit risk stemming from multi-location engagements, it should incent the accounting firm signing the auditor's report to use higher-quality, less risky firms as other audit participants. If investors react negatively to the use of an affiliated

---

[97] *See* Dee et al., *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings*.

[98] Academic research suggests that the financial markets' reaction to earnings surprises depends, among other things, upon the extent to which the disclosed earnings are perceived to be reliable. Thus, if markets react less to earnings surprises after an event, it could suggest that the earnings are perceived to be less reliable after the event. Academic research has tied this to perceived audit quality by investors. *See*, e.g., Siew Hong Teoh and T.J. Wong, *Perceived Auditor Quality and the Earnings Response Coefficient*, 68 The Accounting Review 346 (1993).

accounting firm that was previously associated with a failed audit, it may encourage the accounting firm signing the auditor's report to enhance their supervision and risk management practices.[99] It should also provide other accounting firms incentives to increase the quality of their audit work to help ensure that they can continue to receive referred audit work.

b. Accountability

Public disclosure of the name of the engagement partner and other accounting firms may create incentives for the engagement partner and other accounting firms to take voluntary steps that could result in improved audit quality. As discussed above, the Board expects that external sources would develop a body of information about the histories of engagement partners and other accounting firms. Although auditors already have incentives to maintain a good reputation, such as internal performance reviews, regulatory oversight, and litigation risk, such public disclosure likely will create an additional reputation risk, which should provide an incremental incentive for auditors to maintain a good reputation, or at least avoid a bad one. While this would not affect all engagement partners and all other accounting firms participating in audits to the same degree, as some already operate with a high sense of accountability, others may respond to the additional incentives to deliver high quality audits.

The additional incentives likely will be a result of Form AP disclosures imposing additional reputation risk on engagement partners and other accounting firms. As described in the economic literature, reputation risk is not imposed by regulators or courts, but rather by the market through actions such as the threat of termination of business relationships. Auditors and other accounting firms that participated in audits already face some degree of reputation risk. For example, auditors' names are known by their issuers' audit committees, within their audit firms, and to some extent in the audit industry; these parties can potentially alter or terminate current business relationships with the partners or reduce the probability of their being hired in the future, thereby imposing reputation risk on engagement partners. Form AP, by making names publicly available, will further increase reputation risk.

---

[99] On whether reputational effects may incent global network firms to monitor audit work performed by an affiliate, there is a paper documenting that global audit firm networks have created a network-wide reputation that is susceptible not only to failures of the U.S. Big 4, but also to those of non-U.S. affiliates. *See* Yoshie Saito and Fumiko Takeda, *Global Audit Firm Networks and Their Reputation Risk*, 29 Journal of Accounting, Auditing and Finance 203 (2014).

i. *Disclosure Regarding the Engagement Partner*

Form AP will make the names of engagement partners known to investors and audit committees of companies that have not worked with the engagement partner. To the extent such knowledge affects their current business relationships or future job market prospects, Form AP disclosures likely will impose additional reputation risk on engagement partners. For example, shareholders may express their discontent with an engagement partner though their voting decisions on the ratification of the audit firm, and to the extent that shareholder votes can affect the engagement partner's job market projects, the engagement partner would face increased reputation risk, hence higher accountability.

Many investors, as well as some other commenters, believe that public identification of the engagement partner may result in increased accountability, which could prompt voluntary changes in behavior. However, other commenters, primarily accounting firms, asserted that disclosure of engagement partners would not affect accountability. If engagement partner behavior were to change, such changes could include increased professional skepticism, which could, in turn, result in better supervision of the engagement team and lower reliance on management's assertions. The auditor may have greater willingness to challenge management's assertions in the auditor's consideration of the substance and quality of management's financial statements and disclosures. In addition, public disclosure of the name of the engagement partner may make that person less willing to accept an inappropriate position accepted by a previous engagement partner because of the potential effects on his or her reputation.[100] The disclosures being adopted by the Board will reveal engagement partner rotations to investors, including instances where engagement partners left the engagement before rotation would have been required.

Academic research also analyzed whether engagement partner disclosures has an effect on accountability.[101] For example, a recent study examined the impact of the

---

[100] As discussed previously, an academic study, analyzing instances where engagement partner rotation can be inferred, documents an increased rate of financial statement restatements following the rotation of engagement partners. *See* Laurion, et. al., *U.S. Audit Partner Rotations*.

[101] *See, e.g.,* Joseph V. Carcello and Chan Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom*, 88 The Accounting Review 1511 *passim* (2013); Allen D. Blay, Matthew Notbohm, Caren Schelleman, and Adrian Valencia, *Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate*, 18 International Journal of Auditing 172 (2014); and Ronald R. King, Shawn M. Davis, and Natalia M. Mintchik, *Mandatory*

European Union's audit engagement partner signature requirement on audits in the United Kingdom and found improvements in several proxies for audit quality,[102] as well as a statistically significant increase in audit fees, after controlling for client and auditor characteristics.[103] It is worth highlighting that this study evaluated a policy alternative (a signature requirement) that some commenters have asserted would have a more pronounced effect than the rules being adopted. In addition, the authors note that there were several other audit and financial reporting requirements implemented in the United Kingdom contemporaneously with the signature requirement and, accordingly, it is not possible for the authors to rule out the possibility that these other requirements may have driven their results. Furthermore, the study was conducted using data from the period of the recent financial crisis, which may also have affected the results.

This contrasts with another study suggesting that disclosure requirements could produce limited or no observable improvement in audit quality.[104] Blay et al. analyzed data from the Netherlands and were unable to document any statistically significant changes in audit quality as measured by estimates of earnings quality. The authors speculated that the lack of findings may be attributable to sufficiently high levels of accountability and audit quality in the Netherlands.

As previously noted, the baseline conditions in other jurisdictions may differ from those in the United States, which could affect the extent to which these findings can be generalized to the United States.

Disclosure of the Engagement Partner's Identity: Potential Benefits and Unintended Consequences, 26 Accounting Horizons 533 *passim* (2012).

[102] Specifically, Carcello and Li found a significant decline in abnormal accruals, a decrease in the propensity to meet an earnings threshold, an increase in the incidence of qualified auditors' reports, and an increase in a measure of earnings informativeness. Some commenters criticized the use of one of these metrics, abnormal accruals, as a proxy for audit quality. While, as noted in Section IV.B.1.a.i., abnormal accruals are an imperfect proxy for audit quality, the results were corroborated using alternate proxies.

[103] Specifically, they find that the increase in audit fees from $475,900 to $477,000 between the pre- and post-signature requirement periods, was statistically significant, after controlling for client and auditor characteristics that could impact audit fees. Carcello and Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom*, at 1532.

[104] *See* Blay et al., *Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate*.

ii. *Disclosure Regarding Other Participants in the Audit*

While some commenters questioned the value of disclosures regarding other participants in the audit, others argued that the disclosure of the extent of the audit work performed by other participants in the audit could increase accountability for accounting firms that are named. Other commenters indicated that, as with disclosure of the name of the engagement partner, information sources would likely develop over time. This may increase scrutiny of the overall reputation of such firms. This increased reputational risk should incent other accounting firms participating in an audit to perform high-quality audits for all engagements. Further, if another accounting firm performs a substantial portion of the audit, then its reputation would be closely tied to the overall results of the audit. This may help further align the interests of the other accounting firms participating in the audit with investors and other financial statement users and thus enhance audit quality.

The final rules may also incent global network firms to increase accountability for all of the firms in their networks. The audit process for many multinational companies currently depends on the affiliated firms within a global network to audit company subsidiaries in their respective countries. This introduces vulnerabilities to the audit if quality varies across the network. To counter this risk, the global network firm may be further incented to increase its efforts to maintain uniform quality control standards and accountability across the global network.[105] The global network firm may also improve its monitoring of other audit participants to ensure audit quality as well. This increased accountability of the other accounting firms that participated in the audit to the accounting firm signing the auditor's report could improve audit quality.

For principal auditors that are not part of a global network, disclosures regarding other accounting firms participating in the audit could provide an additional incentive for the principal auditor to choose firms that have a good reputation for quality.

2. The Costs and Other Possible Consequences of Disclosure

Over the course of the rulemaking, the Board was mindful of concerns voiced by commenters about potential compliance and other costs associated with public disclosure. In particular, many commenters on the 2013 Release argued that naming the engagement partner and other audit participants in the auditor's report, as contemplated by the 2013 Release, may create both legal and practical issues under the federal securities laws and therefore increase the cost of performing audits compared to the costs in the current environment. Some commenters suggested that an increase in costs would be passed on to companies through higher audit fees. Some

---

105 *See supra* 99.

commenters urged the Board to proceed with the new transparency requirements, if it determined to do so, by mandating disclosure in an amended PCAOB Form 2 or in a newly created PCAOB form. As discussed in Section III, some commenters suggested that disclosure on a form may not raise the same concerns about liability or consent requirements as disclosure in the auditor's report.

a. Direct Costs

Under the Form AP approach, the direct costs for auditors would include the costs of compiling information about the engagement partner and other participants in the audit and calculating the percentage of audit work completed by other participants in the audit. In general, costs should be lower for audits not involving other participants because the only required disclosure would be the engagement partner's name and Partner ID. Compliance with the Form AP approach will entail initial costs of implementation—which could include creating systems to assign and track Partner ID numbers and to gather the required information from each engagement team—and ongoing costs associated with aggregating the information and filling out and filing Form AP.

A number of commenters observed that administrative effort would be required to compile data for, prepare, and review the required disclosures, both initially and on an ongoing basis. Accounting firms that commented on this issue asserted that the administrative efforts and related costs would not be significant.

b. Indirect Costs and Possible Unintended Consequences

In addition to the direct costs, there may be indirect costs and unintended consequences associated with the disclosures under consideration, some of which could be more significant than the direct compliance costs.

i. *Differential Demand Based on Reputation*

The disclosures aim to provide investors and other financial statement users with additional information they can consider in relation to audit quality at the engagement level, as opposed to the accounting firm level. This may result in some degree of differentiation in stature and reputation of individual auditors who serve as engagement partners and in other accounting firms that participate in audits.

Currently, investors and other financial statement users use proxies for quality, such as accounting firm size and industry experience, to differentiate accounting

firms.[106] Some commenters suggested that the new requirements could be detrimental to smaller and less well-known accounting firms, even when they perform audit work in accordance with PCAOB standards. Others raised concerns that public identification of the engagement partner could lead to a rating, or "star," system resulting in particular individuals and entities being in high demand, to the unfair disadvantage of other equally qualified engagement partners. It is also possible that engagement partners may be unfairly disadvantaged because of association with an adverse audit outcome, which could be particularly damaging to their professional development and future opportunities if it occurred at the outset of their career. Unwarranted attribution of an adverse audit outcome to an engagement partner could also adversely affect other public companies whose audits were led by the same engagement partner. While commenters did not raise similar concerns related to other accounting firms participating in audits, the implications of identification could be similar.

Differential demand based on reputation could be a cost of the disclosures under consideration to the extent the reputation (whether good or bad) was undeserved. It may be reasonable, however, to expect that financial markets would be discerning in considering information about the engagement partner and other accounting firms in the audit. As one commenter stated, "investors are accustomed to weighing a variety of factors when assessing performance. . . . This approach can be seen in the careful analysis investors and proxy advisors do when they are asked to withhold support from directors standing for election. There is no reason to believe they will do otherwise with respect to auditors."[107] Academic research also suggests that financial markets do not treat all restatements and going concern modifications equally. Instead, financial markets respond to the facts and circumstances related to an individual restatement or going concern modification.[108] The results from this research suggest that financial

---

[106] *See* DeAngelo, *Auditor Size and Audit Quality,* and Francis, *What Do We Know About Audit Quality?*

[107] *See* Letter from Denise L. Nappier, State Treasurer, State of Connecticut, to the Office of the Secretary, PCAOB (Mar. 17, 2014), at 3.

[108] Academic research documents differences in the market impact of restatements and going concern modifications based on the specific facts and circumstances of the events. *See, e.g.*, Susan Scholz, *The Changing Nature and Consequences of Public Company Financial Restatements 1997–2006*, *The Department of the Treasury* (Apr. 2008); and Krishnagopal Menon and David D. Williams, *Investor Reaction to Going Concern Audit Reports*, 85 The Accounting Review 2075 *passim* (2010).

markets may be similarly discerning when forming their opinion about an engagement partner or other participant in the audit.

ii. *Overauditing and Audit Fees*

Some commenters have suggested that the increased reputational risk associated with public disclosure may lead to instances of overauditing, in which the engagement team undertakes more procedures than they otherwise might have performed, which do not contribute to forming an opinion on the financial statements. It should be noted that the final rules are not performance standards and do not mandate the performance of additional audit procedures. However, it is possible that some auditors may perform additional procedures as a result of the requirements (for example, because they want to obtain a higher level of confidence in some areas). This could result in unnecessary costs and an inefficient utilization of resources, and might cause undue delays in financial reporting. If and to the extent there are increased costs for auditors as a result of the new rules, however, such costs may be passed on—in whole, in part, or not at all—to companies and their investors in the form of higher audit fees.[109] Further, increased procedures may also require additional time from the company's management to deal with such procedures.

While the possibility of overauditing cannot be eliminated, competitive pressures to reduce the costs of conducting the audit should provide counterincentives that mitigate that risk.

iii. *Other Changes in Behavior of Engagement Partners*

A recent study documents certain ways in which the disclosures could change the incentives of engagement partners resulting in changed behavior.[110] Under a purely theoretical model developed by Carcello and Santore that has not yet been empirically tested, potential reputation costs stemming from disclosure leads engagement partners

---

[109] The Board is aware of public reports that have analyzed historical and aggregate data on audit fees and which suggest that audit fees generally have remained stable in recent years, notwithstanding the fact that the Board and other auditing standard setters have issued new performance standards during that period. *See, e.g.*, Audit Analytics, *Audit Fees and Non-Audit Fees: A Twelve Year Trend* (Sept. 30, 2014). In its 2013 Release, the Board sought data that might provide information or insight into such costs. As noted previously, commenters did not provide data regarding the extent of such costs.

[110] *See* Joseph V. Carcello and Rudy Santore, *Engagement Partner Identification: A Theoretical Analysis*, 29 Accounting Horizons 297 (2015).

to become more conservative and gather more evidence than the accounting firm finds to be optimal. Although the results of the study suggested that the disclosures lead to increased audit quality, the authors' analysis indicated that engagement partner identification likely leads to decreases in the welfare[111] of engagement partners and accounting firms. The authors argued that changes in the welfare of engagement partners and accounting firms may not be optimal within their theoretical analysis.

The Carcello and Santore analysis is limited since they do not explicitly analyze the effects of increased auditor conservatism and increased audit quality on investor utility. Therefore, their description of the "society" is missing a key participant, the investors. This limitation notwithstanding, they do note that increased conservatism at large accounting firms may actually be socially optimal as it could limit damages to market participants stemming from aggressive financial reporting at large issuers.

iv. *Disincentive to Perform Risky Audits*

Some commenters have suggested that engagement partners and other accounting firms participating in audits may avoid complex and/or risky audits because of the potential negative consequences of an adverse audit outcome. It is also possible that accounting firms could increase audit fees or adjust their client acceptance and retention policies because of heightened concerns about liability, including the cost of insurance, or reputational risks. This could enhance auditors' performance of their gatekeeper function to the extent that it increases auditors' reluctance to take on clients at a high risk of fraudulent or otherwise materially misstated financial statements. But it would impose a cost if firms or partners become so risk averse that companies that do not pose such risk cannot obtain well-performed audits. This could effectively compel certain particularly risky companies to use engagement partners or accounting firms with substandard reputations or, in extreme circumstances, lead them to cease SEC reporting. If investors are better able to evaluate the quality of audit work performed by engagement partners and other accounting firms participating in the audit, companies that engage accounting firms with a reputation for substandard quality may experience an increased cost of capital.

v. *Mismatch of Skills*

Some commenters suggested that reputational concerns may lead audit committees not to select qualified engagement partners associated with prior

---

[111] The term "welfare" can be thought of as overall well-being. In economic theory, welfare typically refers to the prosperity and living standards of individuals or groups. Some of the typical factors that are accounted for in welfare functions (or utility functions) include: compensation, leisure, effort, reputation, et cetera.

restatements and to select a perceived "star" partner. It is, therefore, possible that, in some instances, high-demand auditors might be engaged when other auditors whose skills may be more relevant for a particular engagement are not selected. This could result in decreased audit quality. However, accounting firms have incentives to staff engagements appropriately, and high-demand engagement partners would also be incented to avoid performing audits for which they are not qualified in order to maintain that status or to mitigate any skill mismatch and maintain or enhance their reputation by consulting with others within their firm as necessary to ensure audit quality.

The ability to identify partners and other accounting firms involved in specific engagements could also facilitate the intentional selection of auditors with a reputation for substandard quality. Companies may do this for a variety of reasons, including the potential for lower audit fees or to identify auditors who are less likely to challenge management's assertions.

vi. *Possible Changes in Competitive Dynamics*

Differentiation in stature and reputation of individual auditors who serve as engagement partners, and in other accounting firms that participate in audits, could have a number of competitive effects. One commenter suggested that transparency could create a permanent structural bias against smaller, less-known firms and partners as audit committees may be reluctant to engage firms or select partners that are not well-established or well-known. As described in Section IV.A, it appears that the disclosures under consideration could promote increased competition based on factors other than general firm reputation. In particular, if investors are better able to assess variations in audit quality, any resultant financial market effects should incent accounting firms to increase the extent to which they compete based on audit quality.

Moreover, the disclosures could result in changes to the market dynamics for the services of engagement partners and other accounting firms participating in audits. The ability to differentiate among engagement partners and among other accounting firms participating in audits could change external perceptions of particular partners and accounting firms, which may affect the demand for their services.

It should be noted, however, that a marked increase in the mobility of engagement partners and other accounting firms participating in audits seems unlikely due to high switching costs and contractual limitations. For example, partnership agreements, noncompete agreements, and compensation and retirement arrangements may affect partners' incentives and contractual ability to change firms. In addition, the costs to an issuer of replacing the global audit team and explaining the decision to change accounting firms to the market may affect companies' incentives to follow an engagement partner to a new firm. As a result, engagement partners may be reluctant to or contractually precluded from changing accounting firms, and those who elect to change firms may be unable to bring their clients with them. Additionally, the five-year

partner rotation requirement would preclude an engagement partner from serving a company for more than five years, even if the engagement partner switched accounting firms.[112]

vii. *Potential Liability Consequences*

The Board believes that disclosure on Form AP appropriately addresses concerns raised by commenters about liability. As commenters suggested, disclosure on Form AP should not raise potential liability concerns under Section 11 of the Securities Act or trigger the consent requirement of Section 7 of that Act because the engagement partner and other accounting firms would not be named in a registration statement or in any document incorporated by reference into one.[113] While the Board recognize that commenters expressed mixed views on the potential for liability under Exchange Act Section 10(b) and Rule 10b-5 and the ultimate resolution of Section 10(b) liability is outside of its control, the Board nevertheless does not believe any such risks warrant not proceeding with the Form AP approach.

C. Alternatives Considered

After considering these factors and public comments, the Board is adopting new rules and amendments to its standards that require the names of the engagement partner and certain other audit participants to be disclosed in a newly created PCAOB form, Form AP. Commenters have indicated that disclosure in Form AP could produce the intended benefits of transparency while addressing concerns related to auditor liability.

As described below, the Board has considered a number of alternative approaches to achieve the potential benefits of enhanced disclosure.

1. Alternatives Considered Previously

Over the past several years, the Board has considered a number of alternative approaches to the issue of transparency. Initially, the Board considered whether an approach short of rulemaking would be a less costly means of achieving the desired end. The Board's usual vehicles for informal guidance—such as staff audit practice

---

[112] Rule 2-01(c)(6) of Regulation S-X, 17 CFR 210.2-01(c)(6); *see also* Section 203 of the Sarbanes-Oxley Act.

[113] While the requirement to file Form AP is triggered by the issuance of an auditor's report, the form would not automatically be incorporated by reference into or otherwise made part of the auditor's report.

alerts, answers to frequently asked questions, or reports under PCAOB Rule 4010, *Board Public Reports*—did not seem suitable. U.S. accounting firms have not voluntarily disclosed information about engagement partners. Also, even if some auditors disclosed more information under a voluntary regime, practices among auditors likely would vary widely. That would defeat one of the Board's goals of achieving widespread and consistent disclosures about the auditors that carry out PCAOB audits. Thus, the Board did not pursue an informal or voluntary approach.

In the 2009 Release, the Board considered a requirement for the engagement partner to sign the auditor's report in his or her own name in addition to the name of the accounting firm. A number of commenters supported and continue to support the signature requirement. However, many other commenters opposed it, mainly because including the signature in the auditor's report, in their view, would appear to minimize the role of the accounting firm in the audit and could increase the engagement partner's liability. Some commenters believed that this alternative would increase both transparency and the engagement partner's sense of accountability. Other commenters believed that engagement partners already have sufficient incentives to have a strong sense of accountability and that signing their own name on the audit opinion would not affect that.

In the 2011 Release, in addition to the requirement to disclose the name of the engagement partner in the auditor's report, the Board proposed to add to Form 2, the annual report, a requirement to disclose the name of the engagement partner for each audit required to be reported on the form. As originally proposed, disclosure on Form 2 would supplement more timely disclosures in the auditor's report by providing a convenient mechanism to retrieve information about all of a firm's engagement partners for all of its audits. The 2011 Release also proposed to require disclosure about other participants in the most recent period's audit in the auditor's report.

The Board also considered only requiring disclosure in Form 2. There are, however, a number of disadvantages to a Form 2-only approach, as discussed in the 2013 Release. It would delay the disclosure of information useful to investors and other financial statement users from 3 to 15 months.[114] It also would make the information more difficult to find by investors interested only in the name of the engagement partner for a particular audit, rather than an aggregation of all of the firm's engagement partners for a given year, because they would have to search for it in the midst of unrelated information in Form 2.

---

[114] Form 2 must be filed no later than June 30 of each year—according to PCAOB Rule 2201, *Time for Filing of Annual Report*—and covers the preceding 12-month period from April 1 to March 31; *see* Form 2, General Instruction 4.

Some commenters on both the 2011 Release and 2013 Release suggested that the names of the engagement partner and the other participants in the audit should be included, if they were to be disclosed at all, not in the auditor's report but on an existing or newly created PCAOB form only. This would make the information publicly available, while responding to concerns expressed by commenters related to liability and related practical issues. Some commenters on the 2013 Release also suggested that these disclosures would be more appropriately made in the company's audit committee report.

In considering commenters' views, the Board also considered providing auditors the option of making disclosure either in the auditor's report or on a newly created PCAOB form. This alternative would have had the advantage of allowing auditors to decide how to comply with the disclosure requirements based on their particular circumstances, may have imposed lower compliance costs in some instances compared to mandatory form filing or mandatory auditor's report disclosure, and may have resulted in more disclosures in the auditor's report than a mandatory form because some auditors may have preferred to avoid the cost of filing the form by disclosing the information in the auditor's report. However, such an approach would have permitted disclosures in multiple locations, which could have caused confusion and increased search costs compared to either auditor's report disclosure or a mandatory form.

2. Disclosure in the Auditor's Report

Under the alternative proposed in the 2013 Release, auditors would have been required to disclose the name of the engagement partner and certain other participants in the audit in the auditor's report. This approach has certain benefits to market participants related to timing and visibility of the disclosures. For example, mandated disclosure in the auditor's report would reduce search costs for market participants in some instances. The required information would be disclosed in the primary vehicle by which the auditor communicates with investors and where other information about the audit is already found, and would be available immediately upon filing with the SEC of a document containing the auditor's report. However, market participants may incur costs to aggregate the information disclosed in separate auditors' reports.

Some commenters indicated that, compared to disclosure on Form AP, disclosing the information in the auditor's report may have an incrementally larger effect on the sense of accountability of identified participants in the audit because, for example, the engagement partner would be involved in the preparation of the auditor's report, but may not be involved in the preparation of the form. As discussed above, increased auditor accountability could have both positive and, potentially, some negative effects on the audit.

Mandating disclosure of the name of the engagement partner in the auditor's report would also create consistency between PCAOB auditing standards and requirements of other global standard setters regarding engagement partner

disclosure.[115] For example, 16 out of the 20 countries with the largest market capitalization, including 7 E.U. member states, already require disclosure of the name of the engagement partner in the auditor's report.[116] However, it should be noted that baseline conditions, including those regarding auditor liability, may differ among these jurisdictions.

As previously discussed, disclosure in the auditor's report could trigger the consent requirement of Section 7 and subject the identified parties to potential liability under Section 11 of the Securities Act. As a result, there could be additional indirect costs to engagement partners and other accounting firms participating in audits associated with defense of the litigation.

3. Disclosure on a New PCAOB Form

Under the final rules adopted by the Board, firms are be required to disclose the name of the engagement partner and certain other accounting firms that participated in the audit in a separate PCAOB form to be filed by the 35th day after the date the auditor's report is first included in a document filed with the SEC, with a shorter deadline of 10 days for initial public offerings.

The approach described in the 2015 Supplemental Request would allow auditors to decide whether to also provide disclosure in the auditor's report taking into account, for example, any costs associated with obtaining consents pursuant to the Securities Act and the potential for liability stemming from disclosure in the auditor's report. Although many auditors may prefer to avoid the potential legal and practical issues

---

[115] In 2014, the IAASB adopted ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, which generally requires disclosure of the name of the engagement partner in the auditor's report. Following this adoption, disclosure of the engagement partner's name in the auditor's report of a listed entity will become the norm in those jurisdictions that have adopted the ISAs as adopted by the IAASB. *See also* 2013 Release for further discussion of the requirements regarding engagement partner disclosure in other jurisdictions.

[116] Out of the 20 countries with the largest market capitalization (based on data obtained from the World Bank, World Development Indicators), the four that currently do not require the disclosure of the name of the engagement partner are the United States, Canada, Republic of Korea, and Hong Kong. The 16 countries that currently require disclosure of the name of the engagement partner are Japan, United Kingdom, France, Germany, Australia, India, Brazil, China, Switzerland, Spain, Russian Federation, the Netherlands, South Africa, Sweden, Mexico, and Italy.

associated with disclosure in the auditor's report, some auditors may choose to also make the required disclosures in the auditor's report. Financial statement users could interpret an auditor's willingness to be personally associated with the audit in the auditor's report as a signal of audit quality or, more generally, as a means of differentiating among auditors.[117]

Requiring disclosure in a separate PCAOB form may decrease the chances that investors and other financial statement users would seek out the information. While disclosure in the auditor's report would make information available on the date of SEC filing of the document containing the auditor's report, disclosure on Form AP could occur up to 35 days later and information would only be included in the auditor's report when the auditor also chose to disclose in the auditor's report. Regardless of where it is disclosed, investors should be able to consider the information in developing their investment strategies.[118]

D. Applicability to Brokers and Dealers under Exchange Act Rule 17a-5

For a discussion of the economic considerations relevant to the application of the final rules to audits of brokers and dealers, see Section VI.

V. Considerations for Audits of Emerging Growth Companies

Pursuant to Section 104 of the Jumpstart Our Business Startups ("JOBS") Act, any rules adopted by the Board subsequent to April 5, 2012, do not apply to the audits of emerging growth companies ("EGCs") (as defined in Section 3(a)(80) of the Exchange Act) unless the SEC "determines that the application of such additional

---

[117] Changes to the format of the auditor's report in the United Kingdom may have provided auditors with a mechanism to distinguish themselves from their peers. Some filings suggest that some auditors may be using the new format to showcase the rigor and quality of their audit work. *See* Citi Research, *New UK Auditor's Reports Update* (Sept. 3, 2014). A copy of the report can be requested at www.citivelocity.com.

[118] There is an extensive body of academic literature demonstrating that financial markets are able to incorporate information into securities prices. Because securities prices can be viewed as public goods, investors are able to learn important information about a company by looking at the prices of its securities. *See*, *e.g.*, Eugene F. Fama, *Efficient Capital Markets: A Review of Theory and Empirical Work*, 25 The Journal of Finance 383 (1970); Sanford Grossman, *Further Results on the Informational Efficiency of Competitive Stock Markets*, 18 Journal of Economic Theory 81 (1978); John C. Coffee, Jr., *Market Failure and the Economic Case for a Mandatory Disclosure System*, 70 Virginia Law Review 717 (1984); and Verrecchia, *Essays on Disclosure*.

requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation."[119] As a result of the JOBS Act, the rules and related amendments to PCAOB standards the Board is adopting are subject to a separate determination by the SEC regarding their applicability to audits of EGCs.

The 2015 Supplemental Request as well as the 2013 Release sought comment on the applicability of the proposed disclosure requirements to the audits of EGCs. Commenters generally supported requiring the same disclosures for audits of EGCs on the basis that EGCs have the same characteristics as other issuers and that the same benefits would be applicable to EGCs.

The data on EGCs outlined in Appendix 2, "Characteristics of Self-Identified EGCs," remains consistent with the data discussed in the 2013 Release, although the number of EGCs has nearly doubled since the issuance of that release. A majority of EGCs continue to be smaller public companies that are generally new to the SEC reporting process. Overall, there is less information available in the market about smaller and newer companies than there is about larger and more established companies. The communication of the name of the engagement partner and information about other accounting firms in the audit could assist the market in assessing some risks associated with the audit and in valuing securities, which could make capital allocation more efficient. Disclosures about audits of EGCs could produce these effects no less than disclosures about audits of other companies. Because there is generally less information available to investors about EGCs, additional disclosures about audits of EGCs may be of greater benefit to investors in EGCs than to investors in established issuers with a longer reporting history.

As noted in Appendix 2, some EGCs operate in geographic segments that are outside the country or region of the accounting firm issuing the auditor's report, which may suggest involvement of participants in the audit other than the accounting firm issuing the auditor's report. While a smaller percentage of EGCs report such sales and assets than the companies in the Russell 3000 Index, for those EGCs that do, the amounts represent a larger portion of total sales and assets. The percentage of EGCs reporting segment sales (15%) and assets (17%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is smaller as compared to companies in the Russell 3000 Index (51% and 42%, respectively). However, for these EGCs, the average percentage of reported segment sales (58%)

---

[119] *See* Jumpstart Our Business Startups ("JOBS") Act, Pub. L. No. 112-106 (Apr. 5, 2012). *See also* Section 103(a)(3)(C) of the Sarbanes-Oxley Act, (15 U.S.C. 7213(a)(3)), as added by Section 104 of the JOBS Act.

and assets (73%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is significantly higher than the analogous average segment sales (40%) and assets (35%) reported by companies in the Russell 3000 Index. Therefore, providing the disclosures regarding other accounting firms in the audit may be as relevant, or more relevant, to investors in EGCs and other financial statement users as it would be to investors in larger and more established companies.

One commenter asserted that costs to collect data about other participants in the audit will likely be more significant and probably more burdensome for auditors of EGCs than those of other issuers. Based on the characteristics of EGCs it is unlikely that the cost of collecting data will be disproportionately high for EGCs as a group because the percentage of EGCs that operate outside the country or region of the accounting firm issuing the auditor's report appears to be relatively low compared to companies in the Russell 3000 Index. Although for those EGCs that do, the percentage of sales and assets that may be subject to audit by other participants could be greater.

The costs associated with the final rules, which are discussed in Section IV, are equally applicable to all companies, including EGCs. To the extent compliance costs do not vary with the size of the company, they may have a disproportionately greater impact on audits of smaller companies, including audits of smaller EGCs. As previously noted, however, the Board does not believe that direct costs for auditors to comply with the final rule will be significant. Such costs would not, in any case, be borne by companies, including EGCs, except to the extent they are passed on in the form of higher audit fees.

As noted in Section IV, the Board was mindful of concerns voiced by commenters about compliance and other costs. The final rule responds to those concerns by requiring disclosure on Form AP, which should not raise the same concerns about potential liability or consent requirements as disclosure in the auditor's report.

As noted in Appendix 2, approximately 3% of EGCs were audited by firms having only one certified public accountant whose full name is included in the firm's name (for example, sole proprietor). For those EGCs, the name of the audit engagement partner is already disclosed through the required signature of the firm on the auditor's report. No companies in the Russell 3000 Index are audited by such firms.

The Board is providing this analysis and the information set forth in Appendix 2 to assist the SEC in its consideration of whether it is "necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation," to apply the standard and amendments to audits of EGCs. This information includes data and analysis of EGCs identified by the Board's staff from public sources.

The final rules will provide investors and other financial statement users with improved transparency about those who conduct audits, adding more specific data points to the mix of information that can be used to make decisions about audit quality and evaluate the credibility of financial reporting. The information will also allow investors and other financial statement users to evaluate the reputations of engagement partners and other accounting firms, which should have an effect on their sense of accountability.

For the reasons explained above, the Board believes that the final rules are in the public interest and, after considering the protection of investors and the promotion of efficiency, competition, and capital formation, recommends that the final rules should apply to audits of EGCs. Accordingly, the Board recommends that the Commission determine that it is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation, to apply the final rules to audits of EGCs. The Board stands ready to assist the Commission in considering any comments the Commission receives on these matters during the Commission's public comment process.

VI. Applicability to Audits of Brokers and Dealers and Employee Stock Purchase Plans

A. Audit of Brokers and Dealers under Exchange Act Rule 17a-5

Pursuant to Exchange Act Rule 17a-5, brokers and dealers are generally required to file annual reports with the SEC and other regulators.[120] The annual report includes a financial report, either a compliance report or exemption report, and reports by the auditor covering the financial report and the compliance report or exemption report. The annual report is public, except that, if the statement of financial condition in the financial report is bound separately from the balance of the annual report, the balance of the annual report is deemed confidential and nonpublic.[121] Therefore, in situations in which the broker or dealer binds the statement of financial condition separately from the balance of the annual report, the auditor generally would issue two separate auditor's reports that would have different content: (1) an auditor's report on the statement of financial condition that would be available to the public and (2) an auditor's report on the complete annual report that, except as provided in paragraph

---

120 *See* Exchange Act Rule 17a-5, 17 CFR 240.17a-5.

121 *See* Exchange Act Rule 17a-5(e)(3), 17 CFR 240.17a-5(e)(3).

(c)(2)(iv) of Exchange Act Rule 17a-5, would be confidential and not available to the public.[122]

As discussed in the 2013 Release, ownership of brokers and dealers is primarily private, with individual owners generally being part of the management team. The 2015 Supplemental Request sought comment about whether Form AP posed specific issues with respect to brokers and dealers. Some commenters asserted that the disclosure requirements should apply to all audits conducted under PCAOB standards. However, others asserted that the value of the disclosures for brokers and dealers would be significantly limited because of the closely held nature of brokers and dealers. These commenters suggested that the engagement partner and other participants in the audit would be known to the management team, who are the owners in many instances.

While economic theory suggests that there are benefits resulting from enhanced transparency, commenters suggested that the benefits may be relatively less for brokers and dealers. There is likely a lesser degree of information asymmetry between owners and management for entities that are mostly private, closely-held, and small. However, information regarding the auditor may benefit those who are not part of management of the broker or dealer, such as customers. Although these benefits should be considered when determining whether to apply the new rules to brokers and dealers, they must be assessed relative to the potential costs of the required disclosures, which could be disproportionately high for smaller accounting firms that audit brokers and dealers. Overall, it appears likely that the net benefit of the required disclosures would be less for brokers and dealers than for issuers.

Accordingly, at this time, the Board is not extending the Form AP filing requirements to brokers and dealers.[123] The Form AP filing requirements are therefore limited to issuer audits. As the PCAOB and registered public accounting firms gain experience in filing and administering Form AP, and as more information is gathered on broker and dealer audits through the PCAOB's inspections and other oversight functions, the Board will continue to consider whether to make the Form AP requirement applicable to broker and dealer audits and could revisit its decision to limit the Form AP filing requirements to issuer audits.

---

[122] *See also* Exchange Act Rule 17a-5(c)(2), 17 CFR 240.17a-5(c)(2), regarding audited statements required to be provided to customers.

[123] If a broker or dealer were an issuer required to file audited financial statements under Section 13 or 15(d) of the Exchange Act, the requirements would apply.

B. Audits of Employee Stock Purchase Plans

One commenter on the 2013 Release recommended that the reproposed amendments not apply to the audits of employee stock purchase, savings, and similar plans that file annual reports on Form 11-K. This commenter did not believe that disclosure of the name of the engagement partner or information about other participants in the audit would be meaningful for participants in an employee benefit plan that is subject to PCAOB auditing standards.

The Board believes similar transparency and accountability rationales apply to employee stock purchase, savings and similar plans that file annual reports on Form 11-K. For example, disclosing the name of the engagement partner and other accounting firms that participated in the audit on Form AP could increase audit quality by increasing auditors' sense of accountability. In the Board's view, increasing the audit quality in audits of employee stock purchase, savings and similar plans is important for the protection of employee benefit plan participants. Disclosure of the engagement partner's name for the audits of employee benefit plans will provide additional information about an engagement partner's experience for those engagement partners that also audit other issuers.

VII. Effective Date

The 2015 Supplemental Request suggested making the requirements effective for auditors' reports issued or reissued on or after June 30, 2016 or three months after approval by the SEC, whichever occurs later. Many commenters generally advocated a later effective date, although some suggested a phased approach, with disclosure of the engagement partner implemented first and disclosure of other participants delayed for six months to a year after that to provide time for firms to develop data gathering systems and processes. Commenters that suggested a phased approach said that since the engagement partner was already known by the firm, a June 30, 2016 effective date would be appropriate. Some commenters suggested not linking the effective date to a calendar year-end to allow firms to test and implement new systems at a less busy time of year.

After considering comments, the Board has chosen a phased effective date. If approved by the Commission, the new rules of the Board and amendments to auditing standards will take effect as set forth below:

- Engagement partner: auditors' reports issued on or after January 31, 2017, or three months after SEC approval of the final rules, whichever is later

- Other accounting firms: auditors' reports issued on or after June 30, 2017.

A phased effective date will provide investors with the engagement partner's name as soon as reasonably practicable. Providing a later effective date for the other accounting firms' disclosure allows firms time to develop a methodology to gather information regarding the other accounting firms' participation.

On the 15th day of December, in the year 2015, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown

Secretary

December 15, 2015

APPENDIX 1

Rules of the Board and Amendments to Auditing Standards

The Board adopts: (i) new Rules 3210 and 3211; (ii) new Form AP; and (iii) amendments to AS 3101 (currently AU sec. 508), *Reports on Audited Financial Statements*, and AS 1205 (currently AU sec. 543), *Part of the Audit Performed by Other Independent Auditors*.

The text of these rules, form, and amendments is set forth below.

Rules of the Board to Require Disclosure of Certain Participants in the Audit on Form AP

The rules below are added to Section 3 of the Rules of the Board.

RULES OF THE BOARD

* * * * *

Section 3. Auditing and Related Professional Practice Standards

* * * * *

Rule 3210. Amendments

The provisions of Rule 2205 concerning amendments shall apply to any Form AP filed pursuant to Rule 3211 as if the submission were a report on Form 3.

Rule 3211. Auditor Reporting of Certain Audit Participants

(a) For each audit report it issues for an issuer, a registered public accounting firm must file with the Board a report on Form AP in accordance with the instructions to that form.

Note 1: A Form AP filing is not required for an audit report of a registered public accounting firm that is referred to by the principal auditor in accordance with AS 1205, *Part of the Audit Performed by Other Independent Auditors*.

Note 2: Rule 3211 requires the filing of a report on Form AP regarding an audit report only the first time the audit report is included in a document filed with the Commission. Subsequent inclusion of precisely the same audit report in other documents filed with the Commission does not give rise to a requirement to file another Form AP. In the event of any change to the audit report, including any change in the dating of the report, Rule

3211 requires the filing of a new Form AP the first time the revised audit report is included in a document filed with the Commission.

(b) Form AP is deemed to be timely filed if—

1. The form is filed by the 35th day after the date the audit report is first included in a document filed with the Commission; *provided*, *however*, that

2. If such document is a registration statement under the Securities Act, the form is filed by the 10th day after the date the audit report is first included in a document filed with the Commission.

(c) Unless directed otherwise by the Board, a registered public accounting firm must file such report electronically with the Board through the Board's Web-based system.

(d) Form AP shall be deemed to be filed on the date that the registered public accounting firm submits a Form AP in accordance with this rule that includes the certification in Part VI of Form AP.

FORM AP—AUDITOR REPORTING OF CERTAIN AUDIT PARTICIPANTS

GENERAL INSTRUCTIONS

1. Submission of this Report. Effective **[insert effective date of Rule 3211],** a *registered public accounting firm* must use this Form to file with the *Board* reports required by Rule 3211 and to file any amendments to such reports. Unless otherwise directed by the *Board*, the *registered public accounting firm* must file this Form electronically with the *Board* through the *Board's* Web-based system.

2. Defined Terms. The definitions in the *Board's rules* apply to this Form. Italicized terms in the instructions to this Form are defined in the *Board's rules*. In addition, as used in the instructions to this Form, the term "the Firm" means the *registered public accounting firm* that is filing this Form with the *Board*; and the term, "other accounting firm" means (i) a *registered public accounting firm* other than the Firm; or (ii) any other *person* or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework.

3. When this Report is Considered Filed. A report on Form AP is considered filed on the date the Firm submits to the *Board* a Form AP in accordance with Rule 3211 that includes the certification required by Part VI of Form AP.

Note 1: A Form AP filing is not required for an *audit report* of a *registered public accounting firm* that is referred to by the Firm in accordance with AS 1205, *Part of the Audit Performed by Other Independent Auditors*.

Note 2: Rule 3211 requires the filing of a report on Form AP regarding an *audit report* only the first time the *audit report* is included in a document filed with the *Commission*. Subsequent inclusion of precisely the same *audit report* in other documents filed with the *Commission* does not give rise to a requirement to file another Form AP. In the event of any change to the *audit report*, including any change in the dating of the report, Rule 3211 requires the filing of a new Form AP the first time the revised *audit report* is included in a document filed with the *Commission*.

4. Amendments to this Report. Amendments to Form AP are required to correct information that was incorrect at the time the Form was filed or to provide information that was omitted from the Form and was required to be provided at the time the Form was filed. When filing a Form AP to amend an earlier filed Form AP, the Firm must supply not only the corrected or supplemental information, but it must include in the amended Form AP all information and certifications that were required to be included in the original Form AP. The Firm may access the originally filed Form AP through the *Board*'s Web-based system and make the appropriate amendments without needing to re-enter all other information.

   Note: The *Board* will designate an amendment to a report on Form AP as a report on "Form AP/A."

5. *Rules* Governing this Report. In addition to these instructions, Rules 3210 and 3211 govern this Form. Read these *rules* and the instructions carefully before completing this Form.

6. Language. Information submitted as part of this Form must be in the English language.

7. Partner ID. For purposes of responding to Item 3.1.a.6, the Firm must assign each engagement partner that is responsible for the Firm's issuance of an issuer audit report a 10-digit Partner ID number. The Firm must assign a unique Partner ID number to each such engagement partner and must use the same Partner ID for that engagement partner in every Form AP filed by the Firm that identifies that engagement partner. The Partner ID must begin with the Firm ID—a unique five-digit identifier based on the number assigned to the Firm by the PCAOB—and be followed by a unique series of five digits assigned by the Firm. When an engagement partner is no longer associated with the Firm, his/her Partner ID must be retired and not reassigned.

If the engagement partner was previously associated with a different *registered public accounting firm* and had a Partner ID at that previous firm, the Firm must assign a new Partner ID in accordance with the instructions above. The new Firm must report, in Item 3.1.a.6, the new Partner ID and all Partner IDs previously associated with the engagement partner.

Note: The Firm ID can be found by viewing the firm's summary page on the PCAOB website, where it is displayed parenthetically next to the name of the firm—firm name (XXXXX). For firms that have PCAOB-assigned identifiers with fewer than 5 digits, leading zeroes should be added before the number to make 5 digits, e.g., 99 should be presented as 00099.

PART I—IDENTITY OF THE FIRM

In Part I, the Firm should provide information that is current as of the date of the certification in Part VI.

Item 1.1 Name of the Firm

a. State the legal name of the Firm.

b. If different than its legal name, state the name under which the Firm issued this *audit report*.

PART II—AMENDMENTS

Item 2.1 Amendments

If this is an amendment to a report previously filed with the *Board*:

a. Indicate, by checking the box corresponding to this item, that this is an amendment.

b. Identify the specific Part or Item number(s) in this Form (other than this Item 2.1) as to which the Firm's response has changed from that provided in the most recent Form AP or amended Form AP filed by the Firm with respect to an *audit report* related to the *issuer* named in Item 3.1.a.1.

PART III—*AUDIT* CLIENT AND *AUDIT REPORT*

Item 3.1 *Audit Report*

a. Provide the following information concerning the *issuer* for which the Firm issued the *audit report* –

1. Indicate, by checking the box corresponding to this item, whether the *audit* client is an *issuer* other than an employee benefit plan or investment company; an employee benefit plan; or an investment company;

2. The Central Index Key (CIK) number, if any, and Series identifier, if any;

3. The name of the *issuer* whose financial statements were audited;

4. The date of the *audit report*;

5. The end date of the most recent period's financial statements identified in the *audit report*;

6. The name (that is, first and last name, all middle names and suffix, if any) of the engagement partner on the most recent period's *audit*, his/her Partner ID, and any other Partner IDs by which he/she has been identified on a Form AP filed by a different registered public accounting firm or on a Form AP filed by the Firm at the time when it had a different Firm ID; and

7. The city and state (or, if outside the United States, city and country) of the office of the Firm issuing the *audit report*.

b. Indicate, by checking the box corresponding to this item, if the most recent period and one or more other periods presented in the financial statements identified in Item 3.1.a.5 were audited during a single *audit* engagement.

c. In the event of an affirmative response to Item 3.1.b, indicate the periods audited during the single *audit* engagement for which the individual named in Item 3.1.a.6 served as engagement partner (for example, as of December 31, 20XX and 20X1 and for the two years ended December 31, 20XX).

d. Indicate, by checking the box corresponding to this item, if the *audit report* was dual-dated pursuant to AS 3110, *Dating of the Independent Auditor's Report*.

e. In the event of an affirmative response to Item 3.1.d, indicate the date of the dual-dated information and if different from the engagement partner named in Item 3.1.a.6, information about the engagement partner who audited the

information within the financial statements to which the dual-dated opinion applies in the same detail as required by Item 3.1.a.6.

Note: In responding to Item 3.1.e, the Firm should provide each date of any dual-dated *audit report*.

Item 3.2 *Other Accounting Firms*

Indicate, by checking the box corresponding to this item, if one or more *other accounting firms* participated in the Firm's *audit*. If this item is checked, complete Part IV. By checking this box, the Firm is stating that it is responsible for the *audits* or *audit* procedures performed by the *other accounting firm(s)* identified in Part IV and has supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards.

Note: For purposes of Item 3.2, an *other accounting firm* participated in the Firm's audit if (1) the Firm assumes responsibility for the work and report of the *other accounting firm* as described in paragraphs .03-.05 of AS 1205, *Part of the Audit Performed by Other Independent Auditors*, or (2) the *other accounting firm* or any of its principals or professional employees was subject to supervision under AS 1201, *Supervision of the Audit Engagement*.

Item 3.3 Divided Responsibility

Indicate, by checking the box corresponding to this item, if the Firm divided responsibility for the *audit* in accordance with AS 1205, *Part of the Audit Performed by Other Independent Auditors*, with one or more other *public accounting firm*(*s*). If this item is checked, complete Part V.

PART IV—RESPONSIBILITY FOR THE *AUDIT* IS NOT DIVIDED

In responding to Part IV, total *audit* hours in the most recent period's *audit* should be comprised of hours attributable to: (1) the financial statement *audit*; (2) reviews pursuant to AS 4105, *Reviews of Interim Financial Information*; and (3) the *audit* of internal control over financial reporting pursuant to AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*. Excluded from disclosure and from total *audit* hours in the most recent period's *audit* are, respectively, the identity and hours incurred by: (1) the engagement quality reviewer; (2) the person who performed the review pursuant to SEC Practice Section 1000.45 Appendix K; (3) specialists engaged, not employed, by the Firm; (4) an accounting firm performing the audit of entities in which the issuer has an investment that is accounted for using the equity method; (5) internal auditors, other company personnel, or third parties working under the direction of management or the audit committee who provided direct assistance in the *audit* of internal control over financial reporting; and (6) internal

auditors who provided direct assistance in the *audit* of the financial statements. Hours incurred in the *audit* by entities other than *other accounting firms* are included in the calculation of total *audit* hours and should be allocated among the Firm and the *other accounting firms* participating in the *audit* on the basis of which accounting firm commissioned and directed the applicable work.

Actual audit hours should be used if available. If actual audit hours are unavailable, the Firm may use a reasonable method to estimate the components of this calculation. The Firm should document in its files the method used to estimate hours when actual audit hours are unavailable and the computation of total audit hours on a basis consistent with AS 1215, *Audit Documentation*. Under AS 1215, the documentation should be in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand the computation of total audit hours and the method used to estimate hours when actual hours were unavailable.

In responding to Part IV, if the financial statements for the most recent period and one or more other periods covered by the *audit report* identified in Item 3.1.a.4 were audited during a single *audit* engagement (for example, in a reaudit of a prior period(s)), the calculation should be based on the percentage of *audit* hours attributed to such firms in relation to the total *audit* hours for the periods identified in Item 3.1.c.

Indicate, by checking the box, if the percentage of total *audit* hours will be presented within ranges in Part IV.

Item 4.1 *Other Accounting Firm(s)* Individually 5% or Greater of Total *Audit* Hours

a. State the legal name of *other accounting firms* and the extent of participation in the *audit*—as a single number or within the appropriate range of the percentage of hours, according to the following list—attributable to the *audits* or audit procedures performed by such accounting firm in relation to the total hours in the most recent period's *audit*.

90%-or-more of total *audit* hours;
80% to less than 90% of total *audit* hours;
70% to less than 80% of total *audit* hours;
60% to less than 70% of total *audit* hours;
50% to less than 60% of total *audit* hours;
40% to less than 50% of total *audit* hours;
30% to less than 40% of total *audit* hours;
20% to less than 30% of total *audit* hours;
10% to less than 20% of total *audit* hours; and
5% to less than 10% of total *audit* hours.

b. For each *other accounting firm* named, state the city and state (or, if outside the United States, city and country) of the headquarters' office and, if applicable, the *other accounting firm's* Firm ID.

Note 1: In responding to Items 4.1 and 4.2, the percentage of hours attributable to *other accounting firms* should be calculated individually for each firm. If the individual participation of one or more *other accounting firm(s)* is less than 5%, the Firm should complete Item 4.2.

Note 2: In responding to Item 4.1.b, the Firm ID represents a unique five-digit identifier for firms that have a publicly available PCAOB-assigned number.

Item 4.2 *Other Accounting Firm(s)* Individually Less Than 5% of Total *Audit* Hours

a. State the number of *other accounting firm(s)* individually representing less than 5% of total *audit* hours.

b. Indicate the aggregate percentage of participation of the *other accounting firm(s)* that individually represented less than 5% of total *audit* hours by filling in a single number or by selecting the appropriate range as follows:

90%-or-more of total *audit* hours;
80% to less than 90% of total *audit* hours;
70% to less than 80% of total *audit* hours;
60% to less than 70% of total *audit* hours;
50% to less than 60% of total *audit* hours;
40% to less than 50% of total *audit* hours;
30% to less than 40% of total *audit* hours;
20% to less than 30% of total *audit* hours;
10% to less than 20% of total *audit* hours;
5% to less than 10% of total *audit* hours; and
Less-than-5% of total *audit* hours.

PART V—RESPONSIBILITY FOR THE *AUDIT* IS DIVIDED

Item 5.1 Identity of the Other *Public Accounting Firm*(*s*) to which the Firm Makes Reference

a. Provide the following information concerning each other *public accounting firm* the Firm divided responsibility with in the *audit*—

1. State the legal name of the other *public accounting firm* and when applicable, the other *public accounting firm*'s Firm ID.

2. State the city and state (or, if outside the United States, city and country) of the office of the other *public accounting firm* that issued the other *audit report*.

3. State the magnitude of the portion of the financial statements audited by the other *public accounting firm*.

Note: In responding to Item 5.1.a.3, the Firm should state the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, as it is described in the *audit report* in accordance with AS 1205.

PART VI—CERTIFICATION OF THE FIRM

Item 6.1 Signature of Partner or Authorized Officer

This Form must be signed on behalf of the Firm by an authorized partner or officer of the Firm by typing the name of the signatory in the electronic submission. The signer must certify that:

a. The signer is authorized to sign this Form on behalf of the Firm;

b. The signer has reviewed this Form;

c. Based on the signer's knowledge, this Form does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading; and

d. Based on the signer's knowledge, the Firm has not failed to include in this Form any information that is required by the instructions to this Form.

The signature must be accompanied by the signer's title, the capacity in which the signer signed the Form, the date of signature, and the signer's business telephone number and business e-mail address.

* * * * *

Amendments to PCAOB Auditing Standards for Optional Disclosure of Certain Audit Participants in the Auditor's Report

The amendments below are adopted to PCAOB auditing standards.[1]

AS 3101 (currently AU sec. 508), *Reports on Audited Financial Statements*

AS 3101 (currently AU sec. 508), *Reports on Audited Financial Statements*, is amended as follows:

a. Paragraph .09A is added, as follows:

> The auditor may include in the auditor's report information regarding the engagement partner and/or other accounting firms participating in the audit that is required to be reported on PCAOB Form AP, *Auditor Reporting of Certain Audit Participants*. If the auditor decides to provide information about the engagement partner, other accounting firms participating in the audit, or both, the auditor must disclose the following:
>
> a. *Engagement partner*—the engagement partner's full name as required on Form AP; or
>
> b. *Other accounting firms participating in the audit*—
>
> i. A statement that the auditor is responsible for the audits or audit procedures performed by the other public accounting firms and has supervised or performed procedures to assume

[1] On March 31, 2015, the PCAOB adopted the reorganization of its auditing standards using a topical structure and a single, integrated numbering system. *See Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). On September 17, 2015, the U.S. Securities and Exchange Commission ("SEC") approved the PCAOB's adoption of the reorganization. *See* SEC, *Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules To Implement the Reorganization of PCAOB Auditing Standards and Related Changes to PCAOB Rules and Attestation, Quality Control, and Ethics and Independence Standards*, Exchange Act Release No. 34-75935 (Sept. 17, 2015), 80 FR 57263 (Sept. 22, 2015). The reorganized amendments will be effective as of December 31, 2016, and nothing precludes auditors and others from using and referencing the reorganized standards before the effective date. *See* PCAOB Release No. 2015-002 at 21.

responsibility for their work in accordance with PCAOB standards;

ii. *Other accounting firms individually contributing 5% or more of total audit hours*—for each firm, (1) the firm's legal name, (2) the city and state (or, if outside the United States, city and country) of headquarters' office, and (3) percentage of total audit hours as a single number or within an appropriate range, as is required to be reported on Form AP; and

iii. *Other accounting firms individually contributing less than 5% of total audit hours*—(1) the number of other accounting firms individually representing less than 5% of total audit hours and (2) the aggregate percentage of total audit hours of such firms as a single number or within an appropriate range, as is required to be reported on Form AP.

AS 1205 (currently AU sec. 543), *Part of the Audit Performed by Other Independent Auditors*

AS 1205 (currently AU sec. 543), *Part of the Audit Performed by Other Independent Auditors*, is amended as follows:

a. In paragraph .03, the following phrase is added to the end of the second sentence, ", except as provided in paragraph .04."

b. In paragraph .04, the last sentence is deleted and replaced with the following:

> If the principal auditor decides to take this position, the auditor may include information about the other auditor in the auditor's report pursuant to paragraph .09A of AS 3101, *Reports on Audited Financial Statements*, but otherwise should not state in its report that part of the audit was made by another auditor.

c. In paragraph .07:

- The last sentence is deleted.
- Footnote 3 is deleted.

* * * * *

APPENDIX 2

Characteristics of Self-Identified EGCs

The PCAOB has been monitoring implementation of the Jumpstart Our Business Startups Act ("JOBS Act") in order to understand the characteristics of EGCs[1] and inform the Board's consideration of whether it should recommend that the SEC approve the application of the final rules to audits of EGCs. To assist the SEC, the Board is providing the following information regarding EGCs that it has compiled from public sources.[2]

As of May 15, 2015, based on the PCAOB's research, there were 1,972 SEC registrants that filed audited financial statements and identified themselves as EGCs in at least one public filing. Among the 1,972 EGCs, there were 171 that did not file audited financial statements within the 18 months preceding May 15, 2015.[3]

---

[1] Pursuant to the JOBS Act, an EGC is defined in Section 3(a)(80) of the Exchange Act. In general terms, an issuer qualifies as an EGC if it has total annual gross revenue of less than $1 billion during its most recently completed fiscal year (and its first sale of common equity securities pursuant to an effective Securities Act of 1933 (the "Securities Act") registration statement did not occur on or before December 8, 2011). *See* JOBS Act Section 101(a), (b), and (d). Once an issuer is an EGC, the entity retains its EGC status until the earliest of: (i) the first year after it has total annual gross revenue of $1 billion or more (as indexed for inflation every five years by the SEC); (ii) the end of the fiscal year after the fifth anniversary of its first sale of common equity securities under an effective Securities Act registration statement; (iii) the date on which the company issues more than $1 billion in nonconvertible debt during the prior three year period; or (iv) the date on which it is deemed to be a "large accelerated filer" under the Exchange Act (generally, an entity that has been public for at least one year and has an equity float of at least $700 million).

[2] To obtain data regarding EGCs, the PCAOB's Office of Research and Analysis compiled data from Audit Analytics on self-identified EGCs and excluded companies that (i) have terminated their registration, (ii) had their registration revoked, or (iii) have withdrawn their registration statement prior to effectiveness and, in each case, have not subsequently filed audited financial statements. The PCAOB has not validated these entities' self-identification as EGCs. The information presented also does not include data for entities that have filed confidential registration statements and have not subsequently made a public filing.

[3] Approximately 28% of these 171 companies are blank check companies according to the Standard Industrial Classification ("SIC") code. This is the most common SIC code among the 171 companies; the next most common SIC code (5%) is

Characteristics of the remaining 1,801 companies that filed audited financial statements in the 18 months preceding May 15, 2015 are discussed below.

These companies operate in diverse industries. The five most common SIC codes applicable to these companies are: (i) pharmaceutical preparations; (ii) blank check companies; (iii) real estate investment trusts; (iv) prepackaged software services; and (v) business services.

The five SIC codes with the highest total assets as a percentage of the total assets of the population of EGCs are codes for: (i) real estate investment trusts; (ii) state commercial banks; (iii) crude petroleum or natural gas; (iv) national commercial banks; and (v) electric services. Total assets of EGCs in these five SIC codes represent approximately 46% of the total assets of the population of EGCs. EGCs in two of these five SIC codes (state commercial banks and national commercial banks) represent financial institutions, and the total assets for these two SIC codes represent approximately 17% of the total assets of the population of EGCs.

Approximately 13% of the EGCs identified themselves in registration statements and had not reported under the Exchange Act as of May 15, 2015. Approximately 74% of EGCs began reporting under the Exchange Act in 2012 or later. The remaining 13% of these companies have been reporting under the Exchange Act since 2011 or earlier. Accordingly, a majority of the companies that have identified themselves as EGCs have been reporting information under the securities laws since 2012.

Approximately 62% of the companies that have identified themselves as EGCs and filed an Exchange Act filing with information on smaller reporting company status indicated that they were smaller reporting companies.[4]

---

that for metal mining (the remaining SIC codes each represent less than 5%). Approximately 84% of these 171 companies had an explanatory paragraph included in the last auditor's report filed with the SEC stating that there is substantial doubt about the company's ability to continue as a going concern. Approximately 7% of these 171 companies were audited by firms that are annually inspected by the PCAOB, 2% were audited by firms that are affiliates of annually inspected firms, 2% were audited by other foreign firms, and the remaining 89% were audited by domestic firms that are triennially inspected by the PCAOB.

[4] The SEC adopted its current smaller reporting company rules in *Smaller Reporting Company Regulatory Relief and Simplification*, Securities Act Release No. 8876 (Dec. 19, 2007). Generally, companies qualify to be smaller reporting companies and, therefore, have scaled disclosure requirements if they have less than $75 million in public equity float. Companies without a calculable public equity float will qualify if their

Approximately 54% of the companies that have identified themselves as EGCs provided a management report on internal control over financial reporting.[5] Of those companies that provided a management report, approximately 50% stated in the report that the company's internal control over financial reporting was not effective.[6]

The most recent audited financial statements filed as of May 15, 2015, for those companies that identified as EGCs indicated the following:

- The reported assets ranged from zero to approximately $12.9 billion. The average and median reported assets were approximately $227.4 million and $3.1 million, respectively.[7]

---

revenues were below $50 million in the previous year. Scaled disclosure requirements generally reduce the compliance burden of smaller reporting companies compared to other issuers.

[5] The management report on internal control over financial reporting is required only in annual reports, starting with the second annual report filed by the company. *See* Instruction 1 to Item 308(a) of Regulation S-K. EGCs that have not yet filed at least one annual report are therefore not required to provide it.

[6] For purposes of comparison, the PCAOB compared the data compiled with respect to the population of companies that identified themselves as EGCs with companies listed in the Russell 3000 Index in order to compare the EGC population with the broader issuer population. The Russell 3000 Index was chosen for comparative purposes because it is intended to measure the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market (as indicated on the Russell website). To contrast, approximately 98% of the companies in the Russell 3000 Index provided a management report on internal control over financial reporting. Of those companies that provided a management report, approximately 5% stated in the report that the company's internal control over financial reporting was not effective.

[7] As noted in note 6, for purposes of comparison, the PCAOB compared the data compiled with respect to the population of companies that identified themselves as EGCs with companies listed in the Russell 3000 Index in order to compare the EGC population with the broader issuer population. The average and median reported assets of issuers in the Russell 3000 Index were approximately $13.2 billion and approximately $1.9 billion, respectively. The average and median reported revenue from the most recent audited financial statements filed as of May 15, 2015, of issuers in the Russell 3000 were approximately $4.9 billion and $812.9 million, respectively.

- The reported revenue ranged from zero to approximately $926.4 million. The average and median reported revenue were approximately $53.7 million and $48 thousand, respectively.

- Approximately 43% reported zero revenue in their financial statements.

- The average and median reported assets among companies that reported revenue greater than zero were approximately $382.3 million and $71.1 million, respectively. The average and median reported revenue among these companies that reported revenue greater than zero were approximately $94.0 million and $13.5 million, respectively.

- Approximately 50% had an explanatory paragraph included in the auditor's report on their most recent audited financial statements describing that there is substantial doubt about the company's ability to continue as a going concern.[8]

- Approximately 44% were audited by firms that are annually inspected by the PCAOB (that is, firms that have issued auditor's reports for more than 100 public company audit clients in a given year) or are affiliates of annually inspected firms. Approximately 56% were audited by triennially inspected firms (that is, firms that have issued auditor's reports for 100 or fewer public company audit clients in a given year) that are not affiliates of annually inspected firms.

- Approximately 3% were audited by firms: (1) whose names contain the full name of an individual that is in a leadership role at the firm and (2) have disclosed only one certified public accountant.[9]

- Approximately 15% and 17% of the EGCs reported segment sales and assets,[10] respectively, in geographic areas outside the country or region of

---

[8] Less than 1% of companies in the Russell 3000 Index have an explanatory paragraph describing that there is substantial doubt about the company's ability to continue as a going concern.

[9] This data is based on firms' annual disclosures on PCAOB Form 2. No companies in the Russell 3000 Index were audited by such firms.

[10] *See* Financial Accounting Standards Board Accounting Standards Codification, Topic 280, *Segment Reporting*.

the accounting firm issuing the auditor's report.[11] For these EGCs, on average, 58% and 73% of the reported segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.[12]

[11] Approximately 51% and 41% of the population of companies in the Russell 3000 Index reported segment sales and assets, respectively, in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

[12] For the population of companies in the Russell 3000 Index that reported segment sales or assets in geographic areas outside the country or region of the accounting firm issuing the auditor's report, approximately 40% and 35% of those segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.