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SEC Approves PCAOB Rule Requiring Disclosure of Critical Audit Matters

October 24, 2017 | Client Update | 2-minute read

The **SEC has approved** the PCAOB proposal to adopt AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, largely as proposed. Our memo on the **proposed rules is here** and we will issue an update shortly.

The rule is controversial primarily for requiring the auditor to communicate in the auditor's report any critical audit matters (CAMs) arising from the current period's audit, or state in that report that the auditor determined that there are no CAMs. The staggered effective date reflects the debate surrounding CAMs, so that:

- For all paragraphs, except the paragraphs related to CAMs: all audits of fiscal years ending on or after December 15, 2017; and
- For all paragraphs related to CAMs:
  - For audits of large accelerated filers: fiscal years ending on or after June 30, 2019; and
  - For audits of all other companies to which the requirements apply: fiscal years ending on or after December 15, 2020.

The Commission received approximately 50 comment letters, with concerns generally related to: (1) usefulness of the information in CAMs; (2) the auditor's role as the potential source of original information about the company in CAMs; (3) the potential impact of CAMs on the role of the audit committee and the communication among the audit committee, management, and the auditor; (4) the potential liability impact of CAMs; (5) the economic analysis of CAMs; (6) practicability matters related to CAMs; (7) disclosure of auditor tenure in the auditor's report; (8) the effective dates of the Proposed Rules; and (9) implementation efforts.

It appears from the SEC order that because of the lengthy history of the rule, which began in a concept release in 2011, was initially proposed in 2013 and then re-proposed in 2016, the SEC believes that the PCAOB has already heard, and made efforts to address, the issues that were raised in the comment letters to the Commission.

The Commission committed to closely monitoring implementation of the rules, including potentially issuing incremental implementation guidance (if needed), providing PCAOB staff to be available to respond to questions, and completing a post-implementation review as soon as reasonably possible, including some analysis between effective dates for CAMs.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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