

NYSE IPO Companies Gain a Transition Period to Meet Internal Audit Requirements

August 26, 2013 | Client Update | 2-minute read

Companies listing on the NYSE in connection with an IPO, carve-out or spinoff transaction will have a one-year transition period to comply with the NYSE internal audit requirements. The SEC [approved](#) the proposed NYSE rule change on August 22, 2013.

Section 303A.07(c) of the NYSE requires a listed company to have an internal audit function to provide management and the audit committee with ongoing assessments of the listed company's risk management processes and system of internal control. In July, NYSE proposed a one-year transition period for IPO, carve-out and spinoff companies to be consistent with the one-year transition period currently available to any company transferring from another national securities exchange.

Other national securities exchanges do not have a similar internal audit requirement, although Nasdaq had previously proposed adopting one. Nasdaq withdrew its proposal after comment letters to the SEC indicated a high degree of concern, as we previously [discussed](#), primarily related to potential costs. According to one report, 40% of Nasdaq-listed companies with market capitalization between \$75 million and \$250 million do not have an internal audit function. Nasdaq is planning to resubmit the proposal.

Since the NYSE rules have specific requirements making the audit committee responsible for oversight of the internal audit function, several corresponding changes are being made to the audit committee standards, and the committee charter, for any company that wants to avail itself of this transition period, including:

- The audit committee will assist board oversight of the design and implementation of the internal audit function.
- The audit committee must meet periodically with the company personnel primarily responsible for the design and implementation of the internal audit function.
- The audit committee must review with the independent auditor a discussion of management's plans with respect to the responsibilities, budget and staffing of the internal audit function and the company's plans for the implementation of the internal audit function.
- The audit committee should review with the board management's activities with respect to the design and implementation of the internal audit function.

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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