PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

Proposing Release:

Program of Inspection Related to Audits of Brokers and Dealers and Related Engagements

PCAOB Release No. 2026-009
November 19, 2026

PCAOB Rulemaking
Docket Matter No. 059

Summary: The Public Company Accounting Oversight Board (PCAOB or "Board") is proposing amendments to its rules to establish a permanent program of inspection related to audits of brokers and dealers. The proposed program would replace the Board's interim inspection program adopted in 2011 and reflected in PCAOB Rule 4020T. The proposed program would focus inspection oversight on auditors of brokers and dealers that file compliance reports with the U.S. Securities and Exchange Commission (SEC or "Commission") under Rule 17a-5 of the Securities Exchange Act of 1934 (the "Exchange Act") and would exclude from the inspection program audits of brokers and dealers that file exemption reports under Exchange Act Rule 17a-5. Auditors whose audit practice is limited to audits of brokers and dealers that file exemption reports would not be required to register with the PCAOB.

Public Comment: Interested persons may submit written comments to the Board. Comments should be sent by e-mail to comments@pcaobus.org or through the Board's website at www.pcaobus.org. Comments may also be submitted by mail to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803. All comments should refer to PCAOB Rulemaking Docket Matter No. 059 in the subject or reference line and should be received by the Board by January 19, 2027.

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I. EXECUTIVE SUMMARY

The Board is proposing amendments to its rules to establish a permanent program of inspection related to audits[1] of broker-dealers[2] (the "proposal" or "proposed program"). The proposed program would replace the interim broker-dealer auditor inspection program the Board adopted in 2011.[3] The proposed program would focus inspection oversight on registered public accounting firms that audit broker-dealers that file compliance reports with the SEC under Exchange Act Rule 17a-5,[4] and would exclude from the inspection program audits of broker-dealers that file exemption reports under Exchange Act Rule 17a-5.

The proposal is grounded principally in Sarbanes-Oxley Section 104(a)(2), which authorizes the Board, by rule and subject to Commission approval, to establish a program of inspection for registered public accounting firms that provide audit reports for broker-dealers. That provision also expressly permits the Board to differentiate among classes of broker-dealers, as appropriate, requires the Board to consider whether differing inspection schedules are appropriate for certain firms, and authorizes the Board to exempt certain public accounting firms from the broker-dealer auditor inspection program. This statutory framework provides the foundation for the proposed approach described in this release.

As discussed further below in Section II.D.i of this release, Exchange Act Rule 17a-5 generally requires broker-dealers to file either a compliance report or an exemption report—

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[1] For convenience, references in this release to "audits" of broker-dealers (and similarly, to "auditing" broker-dealers) generally include financial statement audits and related attestation engagements, including examinations of compliance reports and reviews of exemption reports, unless the context indicates otherwise.

[2] The terms "broker" and "dealer" are defined in the Sarbanes-Oxley Act of 2002, as amended, 15 U.S.C. § 7201 et seq. ("Sarbanes-Oxley" or, when referenced in proposed rule text, the "Act"), by reference to the definitions in the Exchange Act, with a limitation to those brokers and dealers that (i) meet the Exchange Act definitions thereof, (ii) have an Exchange Act Section 17(e)(1)(A) financial statement filing obligation, and (iii) must have such financial statement certified by a registered public accounting firm. *See* Sarbanes-Oxley Sections 110(3) and (4). The PCAOB's jurisdiction with respect to broker-dealer audits and auditors is limited to audits and auditors of such broker-dealers. *See infra* note 12. As used in this release, the term "broker-dealer" refers to an entity that Sarbanes-Oxley defines as a "broker" or a "dealer," or meets Sarbanes-Oxley's definitions of both a "broker" and a "dealer." Anywhere this release refers to a "broker-dealer auditor inspection program" is meant to refer to inspection of audits and auditors of broker-dealers. *See also* PCAOB Rules 1001(b)(iii) and 1001(d)(iii).

[3] The interim program was established under a temporary rule, PCAOB Rule 4020T. *See Temporary Rule for an Interim Program of Inspection Related to Audits of Brokers and Dealers*, PCAOB Release No. 2011-001 (June 14, 2011) ("Temporary Rule Adopting Release").

[4] 17 C.F.R. § 240.17a-5, *Reports to Be Made by Certain Brokers and Dealers* (as described further below, paragraph (d) of Exchange Act Rule 17a-5 mandates that, except as otherwise exempted, every broker-dealer registered with the Commission must file annually a report containing a financial report and either a "compliance report" or an "exemption report," in each case as defined in the rule). Subject to certain exceptions: (i) each of these broker-dealer reports must be accompanied by a report of an independent public accountant (Exchange Act Rule 17a-5(d)(1)(i)(C)); (ii) the independent public accountant issuing the accompanying reports must be registered with the PCAOB to the extent required by Sarbanes-Oxley (Exchange Act Rule 17a-5(f)(1)); and (iii) each of these broker-dealer reports must be audited, examined, or reviewed, as applicable, in accordance with the standards of the PCAOB (Exchange Act Rule 17a-5(g)(1)-(2)).

depending on whether they claim an exemption from Exchange Act Rule 15c3-3 (the "Broker-Dealer Customer Protection Rule").[5] As a consequence of the Board's exemption of audits of broker-dealers that file exemption reports from the proposed program, auditors whose audit practice is limited solely[6] to these audits would not be required to register with the PCAOB on the basis of those engagements.

In general, broker-dealers that file compliance reports are carrying or clearing firms that receive, handle, or hold customer cash or securities;[7] and broker-dealers that file exemption reports generally do not carry customer accounts or receive, handle or hold customer assets and, as described further below, present comparatively lower customer-asset related risk. Compliance report filing status is used here as a practical proxy for broker-dealers that carry customer accounts or clear customer transactions because such broker-dealers generally are subject to the Broker-Dealer Customer Protection Rule's possession-or-control and reserve computation requirements. Exemption report filers generally claim an exemption from those requirements, including exemptions premised on the broker-dealer (1) not holding customer funds or securities or (2) promptly transmitting them to another broker-dealer. Although compliance report filers represent only approximately five percent of the total number of registered broker-dealers, they account for approximately 99 percent of aggregate net capital requirements and 81 percent of aggregate total assets.[8] The Board believes this concentration

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[5] 17 C.F.R. § 240.15c3-3, *Customer Protection – Reserves and Custody of Securities*. As discussed further below, the Commission has authorized broker-dealers to file an exemption report under certain circumstances even if they do not identify a specific exemption from the Broker-Dealer Customer Protection Rule on which they are reliant. *See infra* note 34.

[6] For purposes of this release, references to firms that "solely" audit exemption report filers, or similar formulations, refer only to the firm's audit engagements that are relevant to the PCAOB's inspection authority under Sarbanes-Oxley. Such references are not intended to imply that the firm does not perform audits or other attestation services for entities outside the scope of the PCAOB's inspection authority.

[7] Notably, broker-dealers that clear customer transactions or carry customer accounts are subject to certain special requirements under Exchange Act Rule 17a-5 beyond filing an annual report containing a compliance report. For example, they must also: (a) subject to very limited exemptions, file on a periodic basis, for example, monthly or quarterly, or at such times as specified, upon receiving notice from the Commission or the broker-dealer's designated examining authority ("DEA"), an executed (confidential) Part II or Part IIA of Commission Form X-17A-5, and such other financial or operational information as may be required by the Commission or their DEA (Exchange Act Rule 17a-5); (b) file Form Custody with their DEA (which must promptly transmit the information in the form to the Commission at such time as it transmits the applicable part of Commission Form X-17A-5, as required by the rule) within a specified timeframe, absent an extension (Exchange Act Rule 17a-5(a)(4) and (6)); and (c) file a statement with the Commission and the broker-dealer's DEA that includes a representation that the broker-dealer agrees to allow, if requested in writing for purposes of examination of the broker-dealer: (i) representatives of the Commission or the broker-dealer's DEA to review audit documentation; and (ii) the broker-dealer's independent public accountant to discuss with representatives of the Commission and the broker-dealer's DEA the findings associated with the independent public accountant's reports on the broker-dealer (Exchange Act Rule 17a-5(f)(2)(ii)(F) and (G)). The term "designated examining authority," including as used herein, is defined in Exchange Act Rule 17a-5(a)(1)(iv) to refer to the examining authority designated with respect to a broker-dealer pursuant to Exchange Act Section 17(d) (and associated SEC rules).

[8] *See* Section IV.A.i.a, Exhibit 2, and accompanying text.

indicates that most of the customer-asset related risk is concentrated within a relatively small segment of the broker-dealer market. Taking into account differences among categories of broker-dealers, as contemplated by Sarbanes-Oxley, and evidence regarding the current state of broker-dealer audits (including information learned from the interim broker-dealer auditor inspection program), the Board believes that the proposed program would focus oversight on audits that provide assurance on broker-dealer assertions that are most directly tied to customer asset protection rules.[9]

Accordingly, the proposal would focus PCAOB oversight on engagements involving broker-dealers whose activities most directly implicate customer cash and securities, where inspection is most likely to advance the Board's investor-protection mission. Audits of exemption report filers would continue to be required under Commission rules and performed in accordance with PCAOB standards; the proposal does not (and cannot) alter such Commission requirements. Rather, the proposal reflects the Board's belief that the incremental benefits of PCAOB inspection are greatest where audit or attestation deficiencies could most directly undermine customer-asset safeguards, and therefore concentrates inspection oversight on those areas of highest customer-asset risk.

A. Overview of the Proposal

The proposed program would:

- Require annual inspection of registered public accounting firms that audit more than 10 broker-dealers that file compliance reports with the Commission pursuant to Exchange Act Rule 17a-5;

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[9] For ease of reference, this release uses certain related terms interchangeably. Sarbanes-Oxley Section 104 directs the Board, in establishing an inspection program for audits of broker-dealers, to consider whether broker-dealers receive, handle, or hold customer securities or cash. SEC rules address these categories of broker-dealers using different formulations, including in exemptions under the Broker-Dealer Customer Protection Rule. Those categories, in turn, are reflected in reporting through compliance report and exemption report filings. In addition, certain data sources and market participants (including the Securities Investor Protection Corporation (SIPC) and the Financial Industry Regulatory Authority (FINRA), in each case as further described below) commonly refer to broker-dealers as carrying or clearing firms, or as non-carrying, non-clearing, or introducing firms. For purposes of this release, carrying or clearing broker-dealers, broker-dealers that receive, handle, or hold customer securities or cash, and compliance report filers are treated as synonymous; likewise, non-carrying, non-clearing, or introducing broker-dealers, broker-dealers that do not receive, handle, or hold customer securities or cash, and exemption report filers are treated as synonymous, notwithstanding that these formulations are not identical in all respects. A broker-dealer's classification for purposes of proposed PCAOB Rule 4013, however, is governed exclusively by PCAOB Rule 4013(a) and does not depend on the use of these descriptive formulations elsewhere in this release.

Further, this release uses the terms "investor" and "customer" interchangeably when discussing individuals and entities that may be affected by failures in broker-dealer compliance, financial reporting, or custody obligations, among other contexts. The Board recognizes that these terms may have different meanings under the federal securities laws and Commission rules, and their use in this release is not intended to alter or suggest any legal distinction.

- Require at least triennial inspection of registered public accounting firms that audit at least one, but no more than 10, broker-dealers that file compliance reports with the Commission pursuant to Exchange Act Rule 17a-5;
- Scope out of the inspection program audits of broker-dealers that file exemption reports pursuant to Exchange Act Rule 17a-5 (even if the registered public accounting firm that performs those engagements remains subject to PCAOB inspection on another basis, such as for issuer audits or for audits of broker-dealers that file compliance reports); and
- Require the issuance of individual, firm-specific inspection reports of all inspected firms, among other requirements.[10]

Taken together, these elements would focus the permanent broker-dealer auditor inspection program on auditors of compliance report filers and exclude audits of exemption report filers from PCAOB inspection. The proposal would provide that a public accounting firm is exempt from the broker-dealer auditor inspection program if all of its broker-dealer engagements are outside the scope of the proposed program. As a result of that exemption, such a public accounting firm would not be required to register with the PCAOB solely by virtue of those broker-dealer audit engagements, absent another basis for registration.[11] The proposal would formally repeal the temporary rule regarding the interim broker-dealer auditor inspection program, PCAOB Rule 4020T, *Interim Program of Inspection Related to Audits of Brokers and Dealers*, in its entirety.

Because customer-asset related risk is concentrated among a relatively small subset of broker-dealers and their auditors, the Board believes a targeted permanent broker-dealer auditor inspection program would better align PCAOB oversight with the engagements where inspection is most likely to advance investor protection. Accordingly, the proposal would focus inspection activities on audits and attestation engagements most directly related to customer-asset safeguards, while reducing inspection-related burdens where the incremental benefits of inspection are comparatively lower. By concentrating inspection oversight, the proposal would allow the PCAOB to focus its resources on more frequent, regular, and transparent oversight of the broker-dealer audits within its scope.

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[10] With regard to a registered public accounting firm with both issuer and broker-dealer engagements, whether broker-dealer findings appear in a standalone inspection report or are consolidated with issuer audit findings would remain flexible such that the PCAOB's Division of Registration and Inspections (DRI) would be able to determine the most practical format based on the registered public accounting firm and inspection cycle, as discussed below in Section III.E of this release.

[11] Even though such accounting firms would not be required to register solely because of those broker-dealer engagements, the broker-dealers would continue to be required under Exchange Act Rule 17a-5 to have audits/attestation engagements performed in accordance with PCAOB standards. This proposal would tailor PCAOB oversight; it would not alter the SEC's substantive requirements under Exchange Act Rule 17a-5 that these engagements be conducted pursuant to PCAOB standards.

B. Requesting Public Comment on Our Proposal

The Board is seeking public comment on all aspects of the proposal. Throughout this release, the Board has included questions soliciting feedback on specific aspects of the proposal. Commenters are encouraged to comment on any or all topics, respond to any or all questions, provide feedback in areas not covered by specific questions, and provide any evidence, including empirical evidence or practical experience, that informs their views. Instructions on how to comment, including by e-mail or postal mail, can be found on the cover sheet of this release.

II. BACKGROUND

Sarbanes-Oxley gives the Board discretion to establish a program of inspection related to audits of broker-dealers. It does so in the context of an existing, complex regulatory framework. The Board adopted the current interim broker-dealer auditor inspection program in 2011 to assess broker-dealer auditors' compliance with PCAOB rules and standards and to inform the development of a proposed permanent broker-dealer auditor inspection program.[12]

The Board believes that the interim broker-dealer auditor inspection program has enabled it to take a careful and informed approach to the statutory latitude afforded it to establish a permanent broker-dealer auditor inspection program that appropriately protects the interests of investors and furthers the public interest in the preparation of informative, accurate, and independent audit reports. The Board has learned from the interim broker-dealer auditor inspection program about the characteristics and risks associated with different categories of broker-dealers and their auditors, as well as the costs and regulatory burdens imposed on different categories of registered public accounting firms and classes of broker-dealers. The Board has also considered the existing regulatory framework for broker-dealers; the PCAOB's statutory framework; regulatory developments subsequent to establishment of the interim broker-dealer auditor inspection program; relevant legislative developments and input from investors, auditors, broker-dealers, and other stakeholders regarding the regulation of broker-dealer auditors (including subsequent to the development of the interim broker-dealer auditor inspection program); and public comment on recent PCAOB requests for comment. Now that the organization has gathered and assessed relevant information, the Board believes it is in a position to make the necessary judgments to implement a more tailored permanent program of inspection related to audits of broker-dealers.

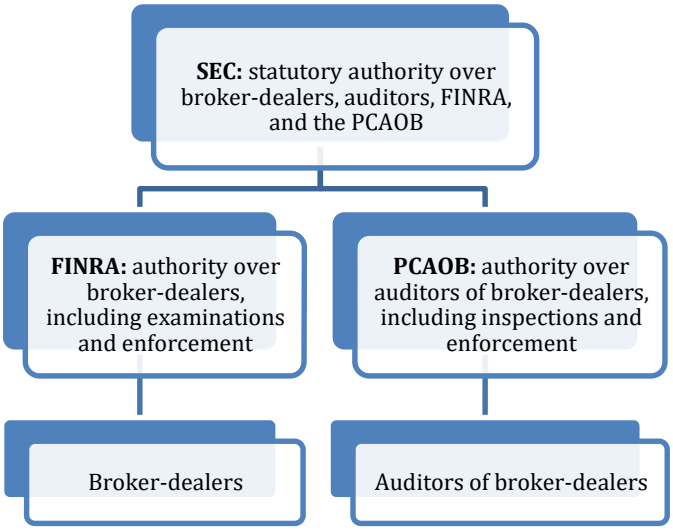
A. General Broker-Dealer Framework

An extensive regulatory framework governs broker-dealers, with a significant focus on the objective of protecting customers by safeguarding customer funds and securities, promoting the financial responsibility of broker-dealers, and reducing the risk that customers

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[12] *See* PCAOB Rule 4020T, *Interim Inspection Program Related to Audits of Brokers and Dealers*. *See also Proposed Temporary Rule for an Interim Program of Inspection Related to Audits of Brokers and Dealers*, PCAOB Release No. 2010-008 (December 14, 2010); and Temporary Rule Adopting Release.

will suffer losses if a broker-dealer fails or otherwise cannot meet its obligations. The broker-dealer financial responsibility framework is designed to protect customers from the consequences of a broker-dealer's financial failure by requiring the safeguarding of customer securities and funds held by broker-dealers.[13]



The securities laws and associated regulations that have been adopted to protect broker-dealer customers have numerous requirements, including: broker-dealer registration with the SEC and state authorities;[14] mandatory national securities association membership for certain broker-dealers;[15] brokerage personnel registration and qualification with FINRA[16] and securities exchanges; and examinations performed by the SEC, FINRA, and exchanges.[17] Other elements of the regulatory framework that apply to broker-dealers include enforcement actions by the SEC and relevant self-regulatory organizations in judicial and

[13] *See* SEC, *Financial Responsibility Rules for Broker-Dealers*, Exchange Act Release No. 70072, (July 30, 2013); *see also* SEC, *Amendments to Financial Responsibility Rules for Broker-Dealers, A Small Entity Compliance Guide* (July 2013).

[14] *See* Exchange Act Section 15(a) (generally requiring broker-dealers that use interstate commerce or the mails to effect transactions in, or induce or attempt to induce the purchase or sale of, securities to register with the Commission); *see also* Exchange Act Section 15(i)(1) (preserving state authority, subject to specified limitations, to require registration, licensing, or qualification of broker-dealers and their associated persons).

[15] *See* Exchange Act Section 15(b)(8) (generally requiring a registered broker-dealer to become a member of a registered securities association unless the broker-dealer effects transactions in securities solely on a national securities exchange of which it is a member).

[16] FINRA is a self-regulatory organization for broker-dealers. FINRA was formed by a consolidation of the member regulation, enforcement, and arbitration operations of the New York Stock Exchange, NYSE Regulation, Inc., and the National Association of Securities Dealers (NASD). The merger was approved by the SEC on July 26, 2007. FINRA oversees over 3,200 brokerage firms and 625,000 registered securities representatives. *See* FINRA, *How FINRA Serves Investors and Members*, available at https://www.finra.org/about/how-finra-serves-investors-and-members.

[17] *See* Exchange Act Section 17(b) (authorizing the Commission to conduct periodic, special, and other examinations of broker-dealers).

administrative proceedings,[18] and private actions by customers through judicial proceedings and arbitration.[19]

Further, SIPC helps protect customers of SIPC-member broker-dealers by overseeing liquidations under the Securities Investor Protection Act of 1970 (SIPA). In those proceedings, a court-appointed trustee works to return eligible customers' cash and securities, including through account transfers or distributions in satisfaction of allowed customer claims, subject to SIPA's requirements and limits.[20]

A central feature of this regulatory framework is the SEC's customer protection regime under the Broker-Dealer Customer Protection Rule, which establishes customer-protection requirements for broker-dealers that maintain custody of customer securities or cash. That rule is designed to mitigate the risk of customer asset loss by, among other things, imposing possession-or-control[21] and reserve computation requirements[22] on broker-dealers with custody of customer property. Certain broker-dealers may qualify for exemptions from some or all of the rule's requirements under paragraph (k) of the Broker-Dealer Customer Protection Rule, depending on the nature of their activities. To support this framework, broker-dealers are generally required to file annual reports, including financial statements, with the SEC (and, where applicable, FINRA), as described more fully below. These reports generally must be audited by PCAOB-registered audit firms.[23]

B. PCAOB Statutory Framework Related to Broker-Dealers

Congress expanded the PCAOB's authority to include audits of broker-dealers in 2010 when the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank

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[18] *See, e.g.,* Exchange Act Section 21 (authorizing the Commission to investigate potential violations of the federal securities laws and seek enforcement remedies for such violations).

[19] Customers may pursue claims against broker-dealers through judicial proceedings or arbitration. *See* FINRA Rule 12200 (requiring FINRA members to arbitrate certain disputes with customers upon the customer's request).

[20] *See* SIPA, 15 U.S.C. § 78aaa et seq. SIPC-member broker-dealers are, with narrow exceptions, all securities broker-dealers registered with the Commission. *See* SIPA Section 3(a)(2).

[21] For more information regarding broker-dealer possession and control requirements, *see* paragraphs (b)-(d) of the Broker-Dealer Customer Protection Rule.

[22] For more information regarding broker-dealer customer reserve computation requirements, *see* paragraphs (e)-(j) of the Broker-Dealer Customer Protection Rule and Exhibits A and B to the Broker-Dealer Customer Protection Rule (designated, respectively, as *Exhibit A – Formula for Determination of Customer and PAB Account Reserve Requirements for Brokers and Dealers under § 240.15c3-3* and *Exhibit B – Formula for Determination of Security-Based Swap Customer Reserve Requirements of Brokers and Dealers under § 240.15c3-3*). These requirements may be referred to in this release as the SEC's "broker-dealer reserve computation requirements."

[23] *But see supra* note 4.

Act")[24] amended Sarbanes-Oxley.[25] Under this authority, the PCAOB oversees auditors of broker-dealers, not broker-dealers themselves.

Specifically, Sarbanes-Oxley Section 104(a)(2)(A) authorizes the Board to establish "by rule…a program of inspection" for registered public accounting firms that audit broker-dealers and to "allow for differentiation among classes of brokers and dealers, as appropriate." The Board need not establish a broker-dealer auditor inspection program at all, but if it does, it must do so by rule (subject to approval by the SEC).[26] Sarbanes-Oxley Section 104(a)(2)(B) includes a non-discretionary mandate and provides that, if the Board establishes such a program, the Board *shall* consider, in establishing inspection schedules, whether differing schedules would be appropriate for registered public accounting firms that issue audit reports only for broker-dealers that do not receive, handle, or hold customer securities or cash or that are not members of SIPC. In addition, Sarbanes-Oxley Section 104(a)(2)(D), together with Sarbanes-Oxley Section 104(a)(2)(A), authorizes the Board to provide, by rule, that certain public accounting firms are exempt from the program of inspection for auditors of broker-dealers and such firms, by operation of the statute, shall not be required to register with the Board solely by virtue of those exempted broker-dealer audit engagements.[27]

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[24] Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376 (July 21, 2010).

[25] The 2010 amendments were effectuated by the Dodd-Frank Act. For purposes of the Board's authority over broker-dealer audits and auditors, references to "broker-dealers" (including as used in this release) do *not* include any broker-dealer that is not required to file annually with the SEC financial statements that have been audited by a PCAOB-registered public accounting firm. For example: (i) pursuant to Exchange Act Rule 17a-5(d)(1)(iv), a broker-dealer that is a member of a national securities exchange, has transacted business in securities solely with or for other members of a national securities exchange, and has not carried any margin account, credit balance, or security for any "customer," as that term is defined in the Commission's rules (*see* Exchange Act Rule 17a-5(c)(4)), is not required to file annual reports, including audited financial statements, with the SEC; (ii) an OTC derivatives dealer, as that term is defined in the Commission's rules (*see* Exchange Act Rule 3b-12, *Definition of OTC Derivatives Dealer*, 17 C.F.R. § 240.3b-12), that complies with Exchange Act Rule 17a-5 by complying with the provisions of Exchange Act Rule 17a-12, *Reports to Be Made by Certain OTC Derivatives Dealers*, 17 C.F.R. § 240.17a-12 (*see* Exchange Act Rule 17a-5(o)), is not required to have the annual financial statements it files with the SEC audited by a PCAOB-registered public accounting firm; and (iii) Exchange Act Rule 17a-5(m) exempts certain broker-dealers from compliance with Exchange Act Rule 17a-5, including the requirement to annually file with the SEC financial statements audited by a PCAOB-registered public accounting firm. Because Commission rules do not require such broker-dealers to file financial statements annually that have been "certified" (audited) by a PCAOB-registered public accounting firm, they are beyond the scope of "broker" and "dealer" as defined for purposes of the Board's authority. *See* Sarbanes-Oxley Section 110(3) and (4).

[26] *See* Sarbanes-Oxley Sections 104(a)(2)(C) and 107(b) (providing that Board rules establishing a broker-dealer auditor inspection program are subject to Commission approval).

[27] Sarbanes-Oxley Sections 104(a)(2)(A) and 104(a)(2)(D), taken together, authorize the Board to provide, by rule, that public accounting firms meeting specified criteria are exempt from the broker-dealer auditor inspection program and provide that such exempted public accounting firms shall not be required to register with the Board. The Board interprets Sarbanes-Oxley Section 104(a)(2)(D) as exempting a public accounting firm from registration only where a firm is not otherwise required to register with the Board (for example, because it audits issuers).

C. Establishment of PCAOB Interim Broker-Dealer Auditor Inspection Program

After the Dodd-Frank Act amended various provisions of Sarbanes-Oxley, the Board in June 2011 adopted PCAOB Rule 4020T and established the current interim program of inspection related to audits of broker-dealers. The interim program does not scope out any category of auditor or establish a set schedule of inspections for any kind of broker-dealer. Every registered public accounting firm that audits a broker-dealer that is required to file an annual report (i.e., its financial report, compliance or exemption report, and supporting schedules) with the SEC is eligible to be selected for inspection at present.[28] Further, per PCAOB Rule 4020T(d), the PCAOB publishes an annual inspection report that describes the progress of the interim broker-dealer auditor inspection program, including data about the number of registered public accounting firms, the number of broker-dealer audits that have been subjected to inspection procedures, and any significant observations from those procedures, among other metrics. These reports are presented on a collective and anonymized basis, rather than identifying individual registered public accounting firms or engagements.

When it adopted the interim broker-dealer auditor inspection program, the Board explained that the inclusive scope of the interim program should not be construed as foreshadowing the likely scope of the permanent program.[29] It also noted that the Board's formulation of the temporary rule did not reflect any exercise of the Board's authority to differentiate among classes of broker-dealers or to exempt any category of public accounting firm, and that the Board anticipated, in its evaluation of a permanent program, considering "whether a broker's or dealer's meaningful access to client assets is a relevant factor in determining the investor protection and public interest benefits of PCAOB oversight of the auditor of that broker or dealer."[30] The Board anticipated that observations from the interim broker-dealer auditor inspection program would be one factor among others that would inform Board judgments on whether any differentiations or exemptions may be appropriate in the permanent program.[31]

D. Subsequent Regulatory Developments

i. Exchange Act Rule 17a-5

In 2013, the SEC amended its broker-dealer reporting rule, Exchange Act Rule 17a-5, to enhance the reporting requirements for registered broker-dealers.[32] The rule revisions added a new annual requirement that broker-dealers file with the SEC either a compliance report or an exemption report addressing the broker-dealer's compliance with (or exemption from) certain

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28 *See supra* note 12.

29 *See* Temporary Rule Adopting Release at 6-7.

30 *See id*.

31 *See id.* at 7.

32 *See* SEC, *Broker-Dealer Reports*, Exchange Act Release No. 70073 (Jul. 30, 2013) ("2013 Broker-Dealer Reports Adopting Release").

broker-dealer financial responsibility rules.[33] A broker-dealer that does not claim an exemption from the Broker-Dealer Customer Protection Rule is generally required to file a compliance report. A broker-dealer that does claim such an exemption is required to file an exemption report.[34] These reports must be filed annually not more than 60 days after the end of a broker-dealer's fiscal year.[35]

A compliance report must contain certain statements[36] about the effectiveness of the broker-dealer's internal control over compliance (ICOC)[37] and about the broker-dealer's compliance with the Broker-Dealer Net Capital Rule[38] and the Broker-Dealer Customer Protection Rule. In addition, if applicable, a compliance report must describe each material weakness found in the broker-dealer's ICOC during the most recent fiscal year and describe any instance of non-compliance with the Broker-Dealer Net Capital Rule or paragraph (e) of the Broker-Dealer Customer Protection Rule[39] as of the end of the most recent fiscal year. The

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[33] These reports (along with a financial report that, together with the compliance or exemption report and any supporting schedules, constitute a broker-dealer's annual report) must be filed with the Commission electronically through the Commission's EDGAR filing system. The annual reports must also be filed with the DEA for the broker-dealer and with SIPC if the broker-dealer is a member thereof. Copies of the reports must be provided to all self-regulatory organizations of which the broker-dealer is a member, unless the self-regulatory organization by rule waives such requirement. *See* Exchange Act Rule 17a-5(d)(6). "Broker-dealer financial responsibility rules" are the rules cited in Exchange Act Rule 17a-5(d)(3)(ii); *see also* PCAOB Attestation Standard No. 1*, Examination Engagements Regarding Compliance Reports of Brokers and Dealers* ("AT 1"), at n. 10.

[34] Exchange Act Rule 17a-5 requires SEC-registered broker-dealers to file annual reports that include either a compliance report or an exemption report, depending on their circumstances. A broker-dealer that claims an exemption from the Broker-Dealer Customer Protection Rule under one of the exemption provisions in paragraph (k) thereof, must file an exemption report rather than a compliance report. The SEC also recognized that certain broker-dealers that do not fit within the paragraph (k) exemption provisions of the Broker-Dealer Customer Protection Rule and that do not hold customers' cash or securities nevertheless may file an exemption report instead of a compliance report. 2013 Broker-Dealer Reports Adopting Release, at n.74.

[35] *See* Exchange Act Rule 17a-5(d)(5).

[36] *See* Exchange Act Rule 17a-5(d)(3).

[37] ICOC refers to internal controls that have the objective of providing the broker-dealer with reasonable assurance that non-compliance with Exchange Act Rule 15c3-1, *Net Capital Requirements for Brokers or Dealers*, 17 C.F.R. § 240.15c3-1 ("Broker-Dealer Net Capital Rule"), the Broker-Dealer Customer Protection Rule, Exchange Act Rule 17a-13, or any rule of the broker-dealer's DEA requiring customer account statements to be sent to customers, will be prevented or detected on a timely basis. *See* Exchange Act Rule 17a-5(d)(3)(ii). One or more material weaknesses in ICOC prevent a broker-dealer from asserting that its ICOC was effective during the fiscal year. *See* Exchange Act Rule 17a-5(d)(3)(iii).

[38] *See* Broker-Dealer Net Capital Rule.

[39] The heading of paragraph (e) of the Broker-Dealer Customer Protection Rule is "*Special reserve bank accounts for the exclusive benefit of customers and PAB accounts*." The term "PAB Account" is defined to mean "a proprietary securities account of a broker or dealer (which includes a foreign broker or dealer, or foreign bank acting as a broker or dealer) other than a delivery-versus-payment account or a receipt-versus-payment account. The term does not include an account that has been subordinated to the claims of creditors of the carrying broker or dealer." *See* paragraph (a)(16) of the Broker-Dealer Customer Protection Rule.

compliance report is subject to an auditor's "examination" engagement designed to provide reasonable assurance.[40]

An exemption report must state the grounds for the broker-dealer's exemption from the requirements of the Broker-Dealer Customer Protection Rule.[41] If a broker-dealer claims an exemption from the Broker-Dealer Customer Protection Rule and files an exemption report,[42] it must promptly transmit all funds and deliver all securities received in connection with its activities as a broker-dealer to others. These exemptions include the following kinds of broker-dealers:

1. A broker-dealer whose transactions as broker or dealer are limited to certain instruments, generally registered investment company securities or interests in an insurance company separate account, and which does not hold funds or securities for, or owe money or securities to, customers (typically referred to as a "(k)(1) exemption");[43]
2. A broker-dealer using a special bank account where the broker-dealer carries no margin accounts, effectuates all transactions between the broker-dealer and its customers through a special bank account for the exclusive benefit of its customers, and does not otherwise hold funds or securities for, or owe money or securities to, customers (typically referred to as a "(k)(2)(i) exemption"); and
3. A broker-dealer acting solely as an introducing broker using a clearing firm and that promptly transmits all customer funds and securities to the clearing broker-dealer which carries all of the accounts of such customers (typically referred to as a "(k)(2)(ii) exemption").[44]

In addition to the exemptions expressly set forth in paragraph (k) of the Broker-Dealer Customer Protection Rule, the Commission recognizes that certain broker-dealers that do not fit within those exemption provisions may nevertheless file an exemption report.[45] Subsequent Commission staff guidance addressed some of the circumstances in which that reporting treatment may be available to a broker-dealer that files an exemption report rather than a

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40 *See* Exchange Act Rule 17a-5(g)(2)(i). *See also* AT 1; *supra* note 32 and accompanying text.

41 *See* Exchange Act Rule 17a-5(d)(4)(i).

42 *See supra* note 34.

43 For purposes of the federal securities laws, a "broker" generally effects securities transactions for the account of others, while a "dealer" generally buys and sells securities for its own account through a regular business. *See* Exchange Act Sections 3(a)(4) and 3(a)(5). *See also supra* note 2.

44 Under this exemption, the broker-dealer, as an introducing broker-dealer, clears all transactions with and for customers on a fully-disclosed basis with a clearing broker-dealer (which carries all customer accounts and maintains and preserves required account-related books and records).

45 *See supra* note 34.

compliance report on the basis of footnote 74 of the 2013 Broker-Dealer Reports Adopting Release.[46]

The exemption report must state that the broker-dealer met the identified exemption throughout the most recent fiscal year without exception, or state that there were exceptions and enumerate each such exception.[47] In addition, where a broker-dealer relying on an exemption from the Broker-Dealer Customer Protection Rule fails to comply with the "prompt transmission" requirement, that failure must be reported as an exception in the broker-dealer's exemption report. The exemption report is subject to an auditor's "review" engagement designed to provide moderate assurance.[48]

Further, under Exchange Act Rule 17a-5, each broker-dealer's annual report must include an independent auditor's report (i.e., expressing reasonable assurance regarding the broker-dealer's financial statements), subject to certain exceptions, irrespective of the broker-dealer's status as compliance report filer or exemption report filer.[49] Exchange Act Rule 17a-5(f)(1) requires that the accountant engaged by the broker-dealer to provide the reports mandated by Exchange Act Rule 17a-5 must be an independent public accountant registered with the PCAOB *if the accountant is required to be registered with the PCAOB under Sarbanes-Oxley*. The Commission's 2013 revisions to Exchange Act Rule 17a-5 also provided that PCAOB standards apply to audits of financial statements and to attestation engagements concerning the new compliance reports and exemption reports. Later that year, the PCAOB adopted new standards to govern auditors' attestation engagements regarding the new reports.[50]

The Commission, DEAs, including FINRA and other self-regulatory organizations, and SIPC use information contained in broker-dealer filings to support their respective regulatory,

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[46] *See id*.

[47] *See* Exchange Act Rule 17a-5(d)(4)(ii)-(iii).

[48] *See* Exchange Act Rule 17a-5(g)(2)(ii). *See also* PCAOB Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers* ("AT 2"), the PCAOB's applicable attestation standard; *see also supra* note 32 and accompanying text.

[49] Under circumstances specified under Exchange Act Rule 17a-5(e), a broker-dealer may be exempt from the requirement that its annual report include independent public accountant's reports (e.g., if, since the date of its prior annual report or registration, the broker-dealer has limited itself to acting as agent for a single issuer in soliciting subscriptions for securities of the issuer, promptly transmitted to the issuer all funds and securities, and not otherwise held funds or securities for or owed money or securities to customers (referred to colloquially as "the single issuer exemption")). Further, Exchange Act Rule 17a-5(d)(1)(iii) and (iv) identify limited circumstances in which an SEC-registered broker-dealer is not required to file annual reports under Exchange Act Rule 17a-5(d), including in connection with certain successions and where the Commission or a DEA has specified more limited reporting obligations, and therefore is not required to engage a registered public accounting firm.

[50] *See Standards for Attestation Engagements Related to Broker and Dealer Compliance or Exemption Reports Required by the U.S. Securities and Exchange Commission and Related Amendments to PCAOB Standards*, PCAOB Release No. 2013-007 (Oct. 10, 2013) ("Attestation Standards Adopting Release").

supervisory, and investor-protection responsibilities.[51] The Commission, DEAs, and other self-regulatory organizations conduct examinations and oversight of broker-dealers and may use information reported in broker-dealer filings as part of their supervisory and risk-monitoring activities. SIPC may also use information regarding a broker-dealer's financial condition and operations in carrying out its statutory responsibilities to protect customers of failed SIPC-member broker-dealers. As a result, the reliability of those filings, including compliance reports, exemption reports, and the related reports issued by independent public accountants, is relevant to the conduct of oversight by those authorities.[52]

ii. PCAOB Attestation Standards for Compliance and Exemption Reports

In connection with the SEC's 2013 Exchange Act Rule 17a-5 amendments, the PCAOB adopted attestation standards tailored to the amendments to SEC rules:

- AT 1 applies to an auditor's examination of a broker-dealer's compliance report.[53] The standard sets out requirements for planning the engagement, testing controls over compliance, performing compliance tests, evaluating the results of the examination procedures, obtaining management representations, and reporting. Under the standard, the auditor must plan and perform the examination engagement to obtain appropriate evidence sufficient to obtain reasonable assurance about the broker-dealer's assertions in its compliance report about, among other things, the existence of material weaknesses in ICOC during the past fiscal year and non-compliance with the Broker-Dealer Net Capital Rule or the SEC's reserve computation requirements[54] as of the end of the most recent fiscal year.
- AT 2 applies to an auditor's review of a broker-dealer's exemption report and consists primarily of inquiry and other review procedures.[55] The standard sets out requirements for planning the engagement, procedures to be included in a review engagement, evaluating the results of the review procedures, obtaining management representations, and reporting. The standard also addresses the

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[51] Annual reports under Exchange Act Rule 17a-5 must be filed with a broker-dealer's DEA and copies of those reports must be provided to all self-regulatory organizations of which the broker-dealer is a member, unless the self-regulatory organization by rule waives that requirement. *See* Exchange Act Rule 17a-5(d)(6)(ii). Annual reports under Exchange Act Rule 17a-5 must be filed with SIPC if the broker-dealer is a member of SIPC. *See id*. A broker-dealer must also file with SIPC a report on the SIPC annual general assessment reconciliation or exclusion from membership forms that contain such information and is in such format as determined by SIPC by rule and approved by the Commission. *See* Exchange Act Rule 17a-5(e)(4).

[52] The auditor's role as it relates to the reliability of broker-dealer filings does not serve as the sole mechanism for identifying violations of the Broker-Dealer Customer Protection Rule or determining whether a broker-dealer properly claimed an exemption from that rule. *See* Section III.B.i.b discussing other regulatory safeguards.

[53] *See supra* note 33.

[54] *See supra* note 22.

[55] *See supra* note 48.

relationship between the review engagement and the audit of the broker-dealer's financial statements, including the auditor's use of knowledge obtained during the audit in planning and performing the review engagement. Under the standard, the auditor must plan and perform the review engagement to obtain appropriate evidence that is sufficient to obtain moderate assurance about the existence of any conditions that would cause any of the broker-dealer's assertions not to be fairly stated in all material respects.

E. Observations from the Interim Broker-Dealer Auditor Inspection Program and Evidence Regarding Broker-Dealer Audits

Based on observations gathered through the interim broker-dealer auditor inspection program, audits and examination engagements of broker-dealers that file compliance reports generally involve more complex audit and attestation considerations than engagements for exemption report filers. In the financial statement audit, compliance report filers often have more complex balance sheets, including asset and liability accounts that may require greater specialized skill and knowledge to audit. In the related compliance examination, auditors must obtain reasonable assurance regarding the broker-dealer's assertions concerning ICOC and compliance with applicable broker-dealer financial responsibility rules, including rules related to customer protection, security counts, and account statements.[56] In contrast, exemption report filers generally have less complex balance sheets and are subject to a review engagement designed to provide moderate assurance regarding the broker-dealer's exemption report assertions. These differences affect the nature, timing, and extent of the auditor's procedures and whether identified deficiencies are likely to have implications for customer asset protection.

The interim broker-dealer auditor inspection program provided the Board with experience inspecting auditors of both compliance report filers and exemption report filers and supplied information regarding the types of broker-dealer activities associated with those categories, the concentration of financial activity and indicators associated with customer-asset related risk among those broker-dealers, and the nature of inspection findings identified in related audit and attestation engagements.

i. Inspection Findings for Broker-Dealer Audit and Attestation Engagements

The interim broker-dealer auditor inspection program has often indicated high deficiency rates in broker-dealer audit and attestation engagements.[57] While inspection

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[56] *See supra* notes 37, 33.

[57] *See, e.g.*, *Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers* ("2025 Annual Report"), PCAOB Release No. 2026-003 (June 11, 2026) (reporting deficiencies in 40% of examined compliance report engagements and 41% of reviewed exemption report engagements in 2025 inspections); *Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers,* PCAOB Release No. 2025-002 (June 13, 2025) (reporting deficiencies in 59% of examined compliance report engagements and 42% of reviewed exemption report engagements in 2024 inspections).

findings have identified deficiencies in both compliance report and exemption report engagements, the nature of those deficiencies has differed. As reflected in Exhibit 8 of the Economic Analysis, which compares inspection results at the engagement level, deficiency rates for financial statement audits of exemption report filers have at times exceeded those for audits of compliance report filers, while examination engagements for compliance report filers generally have exhibited higher deficiency rates than review engagements for exemption report filers.[58] These comparisons do not account for the severity or nature of the deficiencies identified; the rate of deficiencies alone therefore does not necessarily indicate the relative investor-protection significance of the engagements.

The nature of the findings provides important additional context. For audits and examinations of broker-dealers that file compliance reports, inspection findings frequently involve areas related to customer asset protection, including testing associated with the Broker-Dealer Customer Protection Rule, customer reserve computations, possession or control of customer securities, net capital requirements, and related compliance report examination procedures.[59] These deficiencies commonly relate to areas with direct implications for the safeguarding of customer assets, including audits of compliance with the Broker-Dealer Net Capital Rule and the Broker-Dealer Customer Protection Rule.[60] By contrast, deficiencies identified in audits and review engagements involving exemption report filers have more commonly related to engagement quality reviews, audit documentation, evaluation of audit results, reporting requirements, and exemption report review procedures.[61]

By noting this distinction, we do not intend to diminish the significance of any type of deficiencies. Rather, we view these findings as suggesting that the two groups present different inspection considerations and risk profiles based on the nature of the engagements performed and the activities of the underlying broker-dealers.[62]

In evaluating the operation of the interim inspection program, the Board has considered both quantitative and qualitative information. Quantitative information includes, among other things, deficiency rates identified through inspections. Qualitative information includes the nature of broker-dealer activities, the types of audit and attestation engagements performed, the nature of the deficiencies identified through inspections, the significance of customer asset protection requirements applicable to different broker-dealer populations, and other factors

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58 *See* Section IV.A.ii, Exhibit 8.

59 *See* Section IV.A.ii, Exhibits 9 and 10.

60 *See Supplementary Information Related to Audits of Brokers and Dealers: Firms and Engagements Selected, and Inspection Results*, PCAOB Release No. 2026-004 (June 11, 2026) ("2025 Supplement") (reporting deficiencies in Broker-Dealer Customer Protection Rule testing in 33% of reviewed engagements in 2025, 41% in 2024, and 30% in 2023, and deficiencies in Broker-Dealer Net Capital Rule testing in 22%, 25%, and 32% of reviewed engagements, respectively).

61 *See supra* note 59.

62 *See* 2025 Annual Report (discussing deficiencies identified in review engagements related to exemption reports and examination engagements related to compliance reports).

relevant to understanding the risks associated with those engagements. The Board has considered these factors in assessing the broker-dealer audit landscape and in developing the proposed program.

ii. Concentration of Broker-Dealer Financial Activity and Audit Services

Relatively few broker-dealers account for the vast majority of the net capital and total assets reported by all broker-dealers. For the 2025 fiscal year end, broker-dealers that file compliance reports represent only five percent of broker-dealers, but account for 99 percent of the aggregate net capital requirement for all broker-dealers and 81 percent of the aggregate total assets.[63] Compliance report filers generally include carrying or clearing broker-dealers,[64] and, as such, are in regular possession of customer securities and cash. Although these measures are not direct measures of customer assets, the Board believes they provide useful indicators of the scale of broker-dealer operations and the concentration of activities associated with custody of customer cash and securities. As a result, the Board believes these metrics provide relevant evidence that customer-asset related risk is concentrated among compliance report filers.

The Board also considers it significant that the audit market serving compliance report filers is itself highly concentrated. Only a relatively small percentage of broker-dealer auditors audit compliance report filers, and an even smaller subset audits more than 10 compliance report filers.[65] Those firms that audit compliance report filers collectively audit broker-dealers representing nearly all aggregate net capital requirements. These observations suggest that a permanent inspection program focused on compliance report filers would direct inspection oversight toward a relatively small population of auditors whose engagements are associated with broker-dealers accounting for nearly all aggregate net capital requirements.

At the same time, although exemption report filers account for a much smaller share of aggregate net capital requirements and total assets, the category includes firms that vary in size and potential risk profile. For example, among exemption report filers for the 2025 fiscal year end, the net capital requirement was approximately $5,000 at the 10th percentile, $49,668 at the median, and $295,864 at the 90th percentile.[66] Nevertheless, most exemption report filers remain relatively small by net capital requirement, and the category as a whole remains

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[63] *See supra* note 8.

[64] As described in footnote 9 above, carrying or clearing broker-dealers that receive, handle, or hold customer securities or cash, and compliance report filers are treated as synonymous for purposes of this release, notwithstanding that these formulations are not identical in all respects.

[65] *See* Section IV.A.i.b. Based on staff analysis of PCAOB data, 29 of 206 auditors that audit broker-dealers audit compliance report filers, and four firms audit more than 10 compliance report filers.

[66] Based on staff analysis of broker-dealer regulatory filing data.

substantially smaller than compliance report filers and is generally associated with lower customer-asset related risk.[67]

As discussed in Section IV.A.i.a, the market for broker-dealer audit and attestation services is also highly concentrated. For example, three percent of broker-dealer auditors each have more than 100 broker-dealer clients, and their clients account for 99 percent of the aggregate net capital requirement for all broker-dealers and 94 percent of the total assets of all broker-dealers.[68] In contrast, roughly 29 percent of broker-dealer auditors each have only one broker-dealer client, and their clients represent negligible shares of the aggregate net capital and total assets of all broker-dealers. Fourteen percent of broker-dealer auditors audit at least one compliance report filer, and the broker-dealers audited by those firms account for approximately 100 percent of the aggregate net capital requirement and total assets of all broker-dealers (rounded), 98 percent of aggregate net capital, and 97 percent of aggregate total revenue.[69]

Additionally, as discussed in Section IV.A.iii, available evidence regarding broker-dealer liquidations under SIPA provides further support for this risk-based distinction. SIPA establishes a framework under which SIPC may seek the liquidation of a failed broker-dealer in federal bankruptcy court and, where customer property is insufficient, advance funds to satisfy eligible customer claims, subject to statutory limits. Because SIPA liquidations provide information regarding instances in which broker-dealer failures have resulted in customer asset shortfalls, the Board believes they provide a useful indicator of where customer-asset related risks have historically materialized. Although both carrying and non-carrying broker-dealers have been subject to SIPA liquidations, carrying broker-dealers have required substantially larger SIPC advances on average, despite there being a larger number of liquidations of introducing broker-dealers (consistent with their much larger share of the broker-dealer population). The SIPA data is consistent with other evidence indicating that the consequences of broker-dealer failure are more likely to affect customer assets when a broker-dealer receives, handles, or holds customer cash or securities. The Board therefore views SIPA liquidation history as one factor supporting a focus of PCAOB inspection on audit and attestation engagements involving compliance report filers, where audit or attestation deficiencies are more likely to have implications for customer asset protection. The Board notes that SIPA liquidations are relatively uncommon and occur within a broader regulatory framework that includes oversight by the Commission, FINRA, other self-regulatory organizations, and SIPC.[70]

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[67] Based on staff analysis of broker-dealer regulatory filing data.

[68] PCAOB compiled data for fiscal year-end 2025.

[69] *See* Section IV.A.i.a, Exhibit 3(b).

[70] SIPC has reported that customer protection proceedings are relatively uncommon. As of 2025, SIPC reported that 330 SIPA proceedings had commenced since its inception, representing less than one percent of approximately 40,000 broker-dealers that had been SIPC members during that period. SIPC also states that brokerage firm failures are generally rare and that SIPC intervenes in cases involving failed broker-dealers where customer assets may be unavailable or missing. *See* SIPC, *2025 Annual Report* (2026), at 11; SIPC, *The Investor's*

F. Legislative Developments

As discussed above, Congress expanded the Board's authority to include audits of broker-dealers in 2010 in the Dodd-Frank Act.[71] Under that authority, the PCAOB oversees auditors of broker-dealers, not broker-dealers themselves. The amendments reflected Congress's judgment that auditor oversight can play an important role in protecting investors where broker-dealer audit failures may allow risks involving customer assets to go unidentified or unaddressed.

At the same time, Congress did not require the Board to adopt a uniform broker-dealer auditor inspection program covering all broker-dealer audits in the same manner, leaving the Board with important questions about the framing of such a program. The provisions of Sarbanes-Oxley Section 104(a)(2), taken together, indicate that Congress contemplated a calibrated inspection framework that accounts for differences among broker-dealers and the auditors that serve them.

The legislative history of the Dodd-Frank Act amendments explains that the new authority "enables the PCAOB to use its inspection and disciplinary processes to identify auditors that lack expertise or fail to exercise care in broker and dealer audits, identify and address deficiencies in their practices, and, where appropriate, suspend or bar them from conducting such audits."[72] Congress acted against the backdrop of significant investor losses associated with inadequately audited broker-dealers, including the Madoff fraud.[73] Those events underscore the importance of auditor oversight. At the same time, the statutory framework reflects Congress's recognition that broker-dealers differ in their activities and risk profiles and authorizes the Board to differentiate among classes of broker-dealers when establishing an inspection program.

G. Public Comment on PCAOB Strategic Priorities and Standard-Setting

On March 31, 2026, the PCAOB issued a request for public comment on PCAOB strategic priorities,[74] which sought feedback to help inform the development of the PCAOB's 2026-2030 Strategic Plan and guide the PCAOB's focus areas for future standard-setting activities. In response, the Board has received public input related to the broker-dealer auditor inspection

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Guide to Brokerage Firm Liquidations (explaining that brokerage firm failures are rare and that SIPC intervenes in certain cases involving customer assets that may be missing due to theft or severe financial difficulties).

[71] *See supra* note 24 and accompanying text.

[72] S. Rep. No. 176, 111th Cong., 2d Sess. (April 30, 2010) (report of the Committee on Banking, Housing, and Urban Affairs) ("Senate Report") at 154.

[73] The "Madoff fraud" refers to the Ponzi scheme operated by Bernard L. Madoff through his investment advisory business, which collapsed in 2008 and is widely regarded as one of the largest investment frauds in history. *See* Federal Bureau of Investigation, *Bernie Madoff Case* (describing Bernard Madoff's Ponzi scheme and related criminal proceedings), available at https://www.fbi.gov/history/cases-and-criminals/bernie-madoff.

[74] *See* Request for Public Comment, *PCAOB Strategic Priorities*, PCAOB Release No. 2026-001 (March 31, 2026).

program. For example, a commenter stated that non-clearing and non-carrying firms pose less risk to investor assets and that allocation of inspection resources to non-clearing and non-carrying firms detracts from other areas of PCAOB inspection oversight.[75] Another commenter requested that the PCAOB exempt "from your audit requirement" small broker-dealers that are introducing firms, among other criteria.[76] Another commenter stated that "to best serve investor protection and effectively use staff resources, [a permanent program of inspection related to audits of broker-dealers] could be focused on annual inspections of carrying broker-dealers subject to AT 1 examination engagements, with a potential risk-based approach related solely to the exemption report and AT 2 review engagements for introducing brokers (rather than a set schedule)."[77] A different commenter stated that, as part of finalizing the program of inspection related to audits of broker-dealers, the Board should prioritize broker-dealer audit quality, including by considering prioritizing improving audit quality of custodial broker-dealers; the commenter contended that audit failure at one of these broker-dealers would pose a much greater risk to investors than a failure at a non-custodial broker-dealer and that "the Board could focus its attention on smaller audit firms, which have comparatively higher broker-dealer audit deficiency rates than the largest firms."[78]

In addition, on June 23, 2026, the PCAOB issued a Request for Public Comment on PCAOB Standard Setting,[79] which sought feedback to help inform its standard-setting and research agendas, among other topics. One commenter expressed their support for a permanent broker-dealer auditor inspection program that is tailored to investor risk, stating that "inspection activities should be calibrated to the risks presented by the broker-dealer population and avoid unnecessary burden where investor protection benefits are limited."[80] Although other commenters did not specifically address the permanent broker-dealer auditor inspection program, several commenters expressed broader support for risk-focused regulatory approaches and consideration of scalability, costs, and implementation needs.[81]

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[75] *See* FINRA Small Firm Advisory Committee, Comment Letter in Response to PCAOB Request for Comment on Strategic Priorities (May 14, 2026).

[76] *See* Robert Keenan, CEO, Comment Letter in Response to PCAOB Request for Comment on Strategic Priorities (April 21, 2026). The PCAOB cannot exempt broker-dealers from audits. It is unclear if the commenter may have meant that auditors of such firms should be exempt from inspection.

[77] *See* PWC, Comment Letter in Response to PCAOB Request for Comment on Strategic Priorities (May 13, 2026).

[78] *See* NASAA, Comment Letter in Response to PCAOB Request for Comment on Strategic Priorities (May 15, 2026).

[79] *See* Request for Public Comment, *PCAOB Standard Setting*, PCAOB Release No. 2026-005 (June 23, 2026).

[80] *See* CBIZ CPAs, Comment Letter in Response to PCAOB Request for Comment on PCAOB Standard Setting (August 7, 2026).

[81] *See, e.g.,* Forvis Mazars, Comment Letter in Response to PCAOB Request for Comment on PCAOB Standard Setting (August 7, 2026); BDO, Comment Letter in Response to PCAOB Request for Comment on PCAOB Standard Setting (August 7, 2026); EY Comment Letter in Response to PCAOB Request for Comment on PCAOB Standard Setting (August 6, 2026).

Through this proposal, the Board is seeking more specific public comment on the appropriate scope, inspection frequency, reporting framework, and related consequences of a permanent program of inspection related to audits of broker-dealers. The Board encourages commenters that previously addressed these issues in response to the PCAOB's strategic priorities or standard-setting agenda to provide updated or additional views in response to the questions in this release.

The Board has weighed the considerations in the sections above, together with the investor-protection objectives of Sarbanes-Oxley and the evidence discussed throughout this release, in developing the proposed program.

III. DISCUSSION OF THE PROPOSAL

A. Overview of the Proposed Program

The proposed approach would focus inspection oversight on audit and attestation engagements involving broker-dealers that present greater customer-asset related risk, enabling more frequent, transparent, and effective inspections, while reducing regulatory burden where direct risk to customer assets is lower. The Board's objective is not to maximize the number of inspected engagements or conduct inspections solely based on observed deficiency rates. Rather, the Board seeks to target its program where auditor oversight is most likely to address risks related to customer asset protection obligations and thereby advance the Board's investor-protection mission.

In establishing a program of inspection related to audits of broker-dealers, Sarbanes-Oxley expressly permits the Board to differentiate among classes of broker-dealers, as appropriate, requires the Board to consider whether differing inspection schedules are appropriate for certain firms, and authorizes the Board to exempt certain public accounting firms from the broker-dealer auditor inspection program.[82]

Under the proposal, the Board would differentiate among broker-dealers, and exempt accounting firms from inspection, based on whether a broker-dealer is a compliance report filer or an exemption report filer under Exchange Act Rule 17a-5. In developing the proposal, the Board considered three related objectives. First, the Board sought to promote investor protection by focusing audit inspection oversight on those broker-dealers with respect to which the potential risk of loss to customer assets is most significant. Second, for broker-dealers that present comparatively lower customer-asset related risk, the Board assessed whether maintaining a residual audit inspection presence would yield incremental investor-protection benefits that justify the associated regulatory costs. Third, the Board sought to differentiate between these types of broker-dealers using principles that reflect underlying risk characteristics and rely on objective, reliable, and readily available data.

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[82] *See* Sarbanes-Oxley Section 104(a)(2).

The proposed approach is, importantly, informed by the Board's consideration of the characteristics of different classes of broker-dealers, including how a broker-dealer's access to customer assets is relevant to the investor protection and public interest benefits of PCAOB inspection oversight of that broker-dealer's auditor. The proposed approach is also informed by the Board's experience administering the interim broker-dealer auditor inspection program and information obtained through more than a decade of interim inspections. The proposal reflects the Board's assessment of the lessons learned through that experience, which the Board has considered in exercising its statutory discretion to design a permanent broker-dealer auditor inspection program that it believes advances investor protection and the public interest.

Through the interim program, the Board has gained insight into the characteristics of broker-dealers and related audit and attestation engagements, including the nature of the risks presented, the distribution of customer assets and activities, and the inspection findings associated with different categories of broker-dealers. The Board does not view the quantitative inspection deficiency rates in isolation as determinative of an appropriate scope for the proposed program. Deficiency rates are an important indicator of audit quality, but equally important are qualitative factors. Therefore, while the Board recognizes that inspections under the interim inspection program have identified deficiencies in audits and review engagements involving exemption report filers, it considers those deficiencies in the context of other factors including the risk profiles and activities of the underlying broker-dealers. The Board believes oversight should be concentrated on engagements where audit or attestation deficiencies are most likely to affect customer-asset safeguards and where inspection can provide the greatest incremental investor-protection benefit.

Hence, the Board's analysis looks beyond the frequency of observed deficiencies to the investor-protection consequences those deficiencies are likely to have in different broker-dealer contexts. The resulting investor-protection value of inspection activities necessarily depends on the nature of the broker-dealer activity, the extent to which audit or attestation deficiencies could affect customer-asset safeguards, and the incremental benefit of PCAOB inspection of a broker-dealer's auditor relative to other existing regulatory protections. Accordingly, the proposed program is designed to prioritize inspection coverage where audit deficiencies are most relevant to assurance regarding customer-asset safeguards.

B. Proposed Scope of the Program

The proposed scope is intended to implement the Board's statutory authority in a manner that is risk-based, administrable, and consistent with the Board's investor-protection mandate, while providing a clear framework. Among other things, the Board considered risks associated with different categories of broker-dealers, including broker-dealers with respect to which the potential risk of loss to customer assets may be most significant; other existing safeguards related to broker-dealer activities; the appropriate balance between investor protection and regulatory burden; and the availability of objective, reliable, and accurate data from required SEC filings to implement and administer the program. As discussed below, these considerations informed the Board's proposed differentiation among categories of broker-dealers, its reliance on compliance report and exemption report filing status as an

administrable means of implementing that differentiation, and the related definitions, reporting scenarios, and administrative provisions that would govern operation of the proposed program.

i. Scoping Out Audits and Auditors of Exemption Report Filers

Proposed Rule Text - Exemption from Inspection Program Related to Audits of Brokers and Dealers

Rule 4013(d)(1): A registered public accounting firm that, during the prior calendar year, issued one or more audit report(s) or played a substantial role in the preparation or furnishing of one or more audit report(s) with respect to any exemption report filer(s), but did not issue one or more audit report(s) or play a substantial role in the preparation or furnishing of one or more audit report(s) with respect to any compliance report filer, shall not be subject to an inspection under this Rule, and is exempt from the inspection program set forth under this Rule, except to the extent the firm remains subject to an inspection requirement under Note 2 to this section.

Rule 4013(d)(2): With respect to a registered public accounting firm that is otherwise subject to inspection, audits and related attestation engagements of exemption report filers shall not be included in the population of engagements subject to inspection.

Note 1: Absent another basis requiring registration, a public accounting firm that is exempt from the inspection program related to audits of brokers and dealers pursuant to Section 104(a)(2)(D) of the Act is not required to register with the Board.

Note 2: For the avoidance of doubt, a registered public accounting firm that becomes subject to an inspection requirement under paragraph (c)(1) or (c)(2) shall remain subject to that inspection requirement until the inspection is completed or the requirement is otherwise satisfied under paragraph (c)(3), notwithstanding any subsequent change in the nature of the firm's broker or dealer audit activities. Paragraph (d)(1) shall not operate to relieve the firm of any inspection obligation that arose before such change.

a. Risks Associated with Carrying or Clearing Broker-Dealers

A significant risk of loss to investors, whose protection is an express focus of the Board's statutory mandate, relates to broker-dealers that "receive, handle, or hold" customer securities and cash (i.e., those broker-dealers with business lines that engage in "carrying" or "clearing" activities). Other broker-dealers, including introducing broker-dealers that operate pursuant to exemptions from the Broker-Dealer Customer Protection Rule, generally do not maintain custody of customer assets and instead either promptly transmit customer funds or securities to a clearing broker-dealer or do not handle customer assets at all.[83] These broker-dealers

[83] *See supra* Section II.D.i (discussing, among other things, the exemption in sub-paragraph (k)(2)(ii) of the Broker-Dealer Customer Protection Rule).

present comparatively lower custody-related investor risk, particularly with respect to direct risk of loss of customer assets.

The risk framework underlying the proposed approach therefore is focused on broker-dealers that carry or clear customer assets, as those firms present a significant potential for customer asset loss. In order to better align regulatory oversight with the investor-protection objectives of the proposed broker-dealer auditor inspection program, the Board's proposal focuses on engagements where audit or attestation deficiencies are most likely to affect customer-asset safeguards. The proposal is designed to concentrate oversight on the types of broker-dealer engagements where regular inspection is most likely to promote audit quality in areas directly related to customer asset protection, rather than engagements where audit or review deficiencies are less likely to affect customer asset protection.

As discussed in Section II.E.ii, the available evidence indicates that customer-asset related risk is concentrated among broker-dealers that file compliance reports. In the Board's view, this observation supports focusing inspection oversight on engagements where deficiencies are more likely to have significant consequences for customers. As discussed above, the broker-dealers that file compliance reports account for approximately 99 percent of aggregate net capital requirements and 81 percent of aggregate total assets but represent only about five percent of broker-dealers, providing relevant evidence that customer-asset related risk is concentrated among compliance report filers.[84] Thus, the proposed program would aim to scope in audits of carrying and clearing broker-dealers and scope out audits of broker-dealers that file exemption reports, which generally include introducing, non-carrying, or non-clearing broker-dealers. The Board believes these concentrations support focusing inspection resources on the portion of the market where deficiencies are most likely to have consequences for customer asset protection and investor protection generally.

Audit quality may have particular significance when a broker-dealer carries or clears customer cash and securities because high-quality audits and related attestation engagements can enhance the reliability of information regarding the broker-dealer's financial condition and compliance with applicable financial responsibility requirements. More reliable information may assist the Commission, DEAs including FINRA and other self-regulatory organizations, and SIPC in carrying out their oversight responsibilities and identifying potential customer-protection concerns.

The Board believes PCAOB auditor and audit inspection oversight provides its most direct regulatory value when it improves the audit quality in engagements that support information used by the Commission and DEAs to monitor compliance with financial responsibility requirements designed to protect customer assets.

By contrast, for broker-dealers that do not carry customer accounts, hold customer funds or securities, or clear customer transactions, the relationship between audit quality and

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[84] *See supra* note 8.

customer-protection considerations may be less direct. Inspection findings related to auditors of exemption report filers have involved matters arising from the financial statement audit, including engagement quality review procedures, audit documentation, evaluation of audit results, and reporting requirements, as well as matters arising from the review of exemption reports, including inquiries performed as part of the review engagement.[85] Although such deficiencies may affect the reliability of information reported by broker-dealers, they have generally been less directly connected to customer asset protection requirements than deficiencies identified in examinations of compliance reports and the related financial statement audits.

Deficiencies classified in PCAOB inspection findings as incorrect exemptions are typically instances of noncompliance with the prompt transmittal requirement of the exemption on which the broker-dealer has indicated it relies[86] and do not, by themselves, indicate that the broker-dealer is ineligible for exemption. Such instances may indicate some risk related to customer-asset handling, but the Board's inspection experience and findings have not indicated that these exception findings, standing alone, are generally associated with ineligibility for exemption.

For compliance report filers, however, deficiencies have more often related to performing compliance tests, which include reviews for compliance with requirements associated with the Broker-Dealer Customer Protection Rule and other broker-dealer financial responsibility rules.[87] In observing this distinction between the types of deficiencies associated with exemption report versus compliance report filers, including that deficiencies associated with compliance report filers may relate more directly to the broker-dealer's obligations concerning the protection of customer assets, the Board does not diminish the importance of compliance with all aspects of its standards. Rather, the Board believes these differences are relevant in assessing the extent to which inspection findings are likely to bear directly on customer asset protection and therefore where oversight may provide the greatest investor-protection benefits.

The Board acknowledges that exemption report filers are not risk-free and that investor losses may occur in connection with the activities of such filers, including as a result of misconduct, operational failures, or other events. In addition, excluding from inspections the audits and reviews of exemption report filers may reduce the likelihood that deficiencies in those engagements are identified. However, based on information from the interim broker-dealer auditor inspection program and the nature of the activities conducted by exemption report filers, the Board believes that the incremental investor-protection benefit of PCAOB auditor inspections including these engagements is comparatively more limited because audit or review deficiencies and customer-asset losses are generally not directly linked.

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85 *See* Section IV.A.ii, Exhibits 9 and 10.

86 Based on staff analysis of PCAOB data.

87 *See id.*

In that context, a deficiency in the auditor's review of an exemption report, standing alone, generally does not directly implicate customer asset custody safeguards. This is because eligibility to file an exemption report under SEC rules is generally contingent on a broker-dealer not holding customer assets for any significant period of time. Such deficiencies instead typically relate to the form and content of the auditor's review reports or procedural compliance rather than to asset-protection functions. As a result, investor harm would generally arise only where such deficiencies are accompanied by other failures or misconduct. These may include an incorrect exemption determination, breakdowns in broker-dealer controls, failures to satisfy prompt-transmission requirements, misconduct by the broker-dealer such as misdirection of customer trades, or failures in other elements of the regulatory framework. Such misconduct by the broker-dealer may not be able to be detected through a financial statement audit or exemption report review.[88]

As discussed, the proposal would exclude from the permanent broker-dealer auditor inspection program firms that audit only exemption report filers. Based on the most recent data, these firms collectively audit 1,699 exemption report filers and represented 177 of the 206 auditors of broker-dealers. Under the interim inspection program, such firms were inspected on average approximately once every nine years. Accordingly, while the proposal would change the scope of the PCAOB's broker-dealer auditor inspection program, the historical inspection coverage of these firms was relatively limited under the interim program.

Although audit quality is important for exemption report filers, the Board believes that PCAOB inspection provides the most value when the auditor's work bears on compliance with safeguards governing customer assets. Because exemption report filers generally do not maintain custody of customer assets (other than for a short period of time), inspection of those engagements is less likely to result in investor-protection benefits sufficient to justify the associated regulatory costs and inspection-related burdens.

b. Other Safeguards

The Board believes that several regulatory safeguards reduce the likelihood that audit or review deficiencies related to exemption report filers would ultimately result in customer-asset losses. As a threshold matter, as discussed, exemption report filers generally do not maintain custody of customer assets in the manner of carrying or clearing broker-dealers and therefore present less direct customer-asset related risk. In addition, exemption report filers generally remain subject to the Commission's broker-dealer financial responsibility rules,[89] recordkeeping and reporting requirements, and examination and enforcement authorities. The Board understands that DEAs and the Commission also conduct oversight activities directly over broker-dealers designed to identify noncompliance with applicable requirements, including improper reliance on the Broker-Dealer Customer Protection Rule exemptions. Finally, the Board's proposal would not change the SEC's requirements that exemption report filers obtain

[88] *See* Section III.B.i.b for a discussion of existing regulatory safeguards.

[89] *See supra* note 33.

audits and exemption report reviews performed in accordance with SEC requirements and PCAOB standards.[90] Collectively, these safeguards may reduce the likelihood that audit or review deficiencies would lead to significant investor harm.

Audit and attestation requirements represent just one aspect of the mosaic of regulatory supervision related to broker-dealers. The proposal reflects the Board's view that high-quality audits and attestation engagements contribute to the reliability of information that broker-dealers must report, and that regulators use, in overseeing compliance with applicable broker-dealer requirements. Responsibility for overseeing broker-dealer compliance with the Broker-Dealer Customer Protection Rule and other financial responsibility requirements, however, rests principally with the Commission and a broker-dealer's DEA or other applicable self-regulatory organization(s). The Board believes that these existing oversight mechanisms provide significant safeguards against circumstances in which a broker-dealer might improperly claim eligibility to file an exemption report or otherwise fail to comply with applicable broker-dealer financial responsibility rules.

The Board understands that the SEC and DEAs, including FINRA and other self-regulatory organizations, may use information reported in broker-dealer filings as part of their supervisory and risk-monitoring activities. SIPC may also use information regarding a broker-dealer's financial condition and operations in carrying out its statutory responsibilities to protect customers of failed SIPC-member broker-dealers. Audits and attestation engagements serve an important regulatory function by providing assurance regarding information used within that broader regulatory framework. The scoping of the proposed program would neither eliminate SEC requirements that broker-dealer audits and exemption report reviews be performed in accordance with PCAOB standards, [91] nor remove all broker-dealer engagements from inspection.

Moreover, the Board believes it is notable that broker-dealer financial reporting is directed principally toward the Commission and DEAs in overseeing broker-dealer compliance, in contrast to issuer financial reporting, which is directed principally toward informing investors.[92] The Board believes that regulatory organizations have expertise in using broker-dealer financial reporting in their oversight activities. Further, regulatory organizations have access to sources of operational data other than audited financial reporting, such as monthly and quarterly SEC-mandated Financial and Operational Combined Uniform Single (FOCUS) filings and daily clearing and settlement reconciliations, among other data sources.

The Board also considered whether other regulatory oversight mechanisms are likely to identify circumstances in which a broker-dealer improperly claims eligibility to file an

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90 *See* Exchange Act Rule 17a-5; *see also supra* note 49. We note the proposal also would not alter existing PCAOB enforcement authority with respect to registered firms.

91 *See id.*

92 *See* 2013 Broker-Dealer Reports Adopting Release (adopting amendments designed to enhance regulatory oversight of broker-dealers and requiring reports and information to be provided to the Commission and DEAs).

exemption report under the Broker-Dealer Customer Protection Rule. As discussed above, the interim inspection program data indicate that deficiencies identified in reviews of exemption reports more often related to audit documentation, engagement quality review procedures, evaluation of audit results, reporting requirements, and review-engagement procedures. Inspection findings generally did not involve deficiencies concerning the auditor's evaluation of whether a broker-dealer properly qualified for a claimed exemption from the Broker-Dealer Customer Protection Rule. By contrast, as discussed above, the Board understands that the Commission and DEAs, including FINRA, have existing oversight mechanisms designed to assess compliance with the Broker-Dealer Customer Protection Rule. Taken together, these considerations suggest that the direct regulatory oversight by the Commission and the DEAs over broker-dealers may be more likely to identify instances where a broker-dealer improperly claims eligibility to file an exemption report.

For these reasons, the Board believes excluding audits of exemption report filers from PCAOB inspection may have a more limited effect on investor protection. Thus, in the context of other considerations informing the proposed approach—namely the less direct risk to customer assets posed by non-clearing and non-carrying firms—other existing safeguards support the scoping of the proposed program as it relates to exemption report filers.

In the Board's view, this broader regulatory framework is relevant to the Board's assessment of the expected benefits and costs of the proposed program. Where existing regulatory safeguards may more directly address the principal customer-asset risks associated with exemption report filers, the incremental benefits of PCAOB inspection are less likely to justify the associated inspection costs and registration consequences. By contrast, for compliance report filers, PCAOB inspection more directly supports the quality of audit and attestation work related to rules designed to protect customer assets. This conclusion reflects the Board's assessment of how PCAOB inspection fits within the broader regulatory framework; it does not diminish the important role of audits and reviews conducted under Commission requirements and in accordance with PCAOB standards.

c. Differentiation Among Broker-Dealers

Sarbanes-Oxley Section 104(a)(2)(A) authorizes the Board to "allow for differentiation among classes of brokers and dealers, as appropriate." Additionally, Sarbanes-Oxley Section 104(a)(2)(B) directs the Board, if it establishes a broker-dealer auditor inspection program, to consider whether differing inspection schedules would be appropriate for firms that audit only broker-dealers that do not receive, handle, or hold customer securities or cash or that are not members of SIPC. In developing the proposed program, the Board considered both of these categories. With respect to SIPC membership, the Board preliminarily does not believe that membership would provide a meaningful basis for differentiating inspection scope or frequency because approximately 94 percent of broker-dealers are SIPC members.[93] The Board believes it is appropriate to differentiate among broker-dealers based on compliance report and

[93] *See* Section IV.D.iii.a.1.

exemption report filing status because those categories reflect meaningful differences in customer-asset related risk and provide an objective and administrable basis for implementing the inspection program.[94] Accordingly, the proposed approach would differentiate between higher- and lower-risk segments using compliance report filing status as a practical proxy that reflects underlying custody risk and relies on objective, verifiable regulatory data.

The proposed program would apply scope limitations at both the engagement and auditor levels in order to focus the program on audits of compliance report filers, which generally include clearing or carrying broker-dealers.[95] The PCAOB would inspect registered public accounting firms that, during the prior calendar year, issued an audit report for a broker-dealer that filed a compliance report with the SEC in accordance with Exchange Act Rule 17a-5.[96] Proposed PCAOB Rule 4013(d)(2) would also scope out audits of broker-dealers that file exemption reports, such that those audit engagements would not be subject to PCAOB inspection even where the audit firm itself remains subject to PCAOB registration or inspection on another basis (for example, because the firm prepares or issues–or plays a substantial role in the preparation or furnishing of–an audit report with respect to an issuer[97]). The exclusion in proposed PCAOB Rule 4013(d)(2) would apply to the selection and review of individual engagements and would not prevent the Board, in an otherwise authorized inspection, from assessing a firmwide quality control system that affects both engagements within and engagements outside the scope of proposed PCAOB Rule 4013. Further, at the auditor level, under proposed PCAOB Rule 4013(d)(1), the PCAOB would exclude from the proposed program

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[94] The Board considered size as an alternative category of differentiation but recognizes that the size of a broker-dealer, standing alone, may not be a reliable indicator of where PCAOB inspection would provide the greatest investor-protection benefit. Even a relatively large broker-dealer may file an exemption report and therefore not be required to make assertions regarding customer reserve computations, possession or control of customer securities, or the effectiveness of internal control over compliance with customer-protection requirements. Accordingly, the Board believes that compliance report filing status, rather than size alone, is a more reliable indicator of where PCAOB inspection would provide the greatest incremental investor-protection benefit.

[95] The proposed program would apply to registered public accounting firms that perform scoped-in engagements involving compliance report filers regardless of whether the registered public accounting firm is located in the United States or another jurisdiction. Based on currently available information, the Board is not aware of any non-U.S. registered public accounting firms that currently audit compliance report filers, although non-U.S. firms have performed such audits in the past. Non-U.S. registered public accounting firms that perform such engagements in the future would be subject to the proposed program on the same basis as other registered public accounting firms.

[96] As discussed in Section III.F.ii, for firms that play a substantial role in the preparation or furnishing of audit reports for broker-dealers, the proposed broker-dealer auditor inspection program would incorporate a substantial-role concept analogous to the issuer auditor inspection program. The Board has not observed any substantial-role firms of broker-dealer audits in the interim broker-dealer auditor inspection program; however, if such firms were to emerge in the future, inspections would be conducted under the existing issuer substantial-role framework, pursuant to which at least five percent of substantial-role registered public accounting firms would be inspected annually across the combined issuer and broker-dealer population, rather than through a separate broker-dealer-specific inspection pool. *See generally* PCAOB Rule 4003(h), which the proposal would redesignate as paragraph (e).

[97] *See* PCAOB Rule 4003.

auditors that, during the prior calendar year, issued audit reports *solely* with respect to broker-dealers that are exemption report filers. The proposal would not, however, eliminate an inspection obligation that arose based on a registered accounting firm's prior issuance of an audit report for a broker-dealer that filed a compliance report. Note 2 to proposed PCAOB Rule 4013(d) would clarify that, once a registered public accounting firm becomes subject to an inspection obligation under the proposed inspection schedules, that obligation would remain in place until the inspection is completed or otherwise satisfied under the rule, notwithstanding a subsequent change in the firm's broker-dealer audit practice. The Board believes this approach is appropriate because it prevents firms from avoiding an inspection obligation that arose while the firm was performing scoped-in engagements and helps preserve the effectiveness of the inspection program. Without such a provision, a firm could potentially cease performing audits of compliance report filers after becoming subject to inspection and thereby avoid inspection of engagements that gave rise to the inspection obligation in the first instance.

Accordingly, once a firm becomes subject to an annual or triennial inspection requirement under the proposed program, the firm would remain subject to that requirement until the inspection is completed unless the Board determines under proposed PCAOB Rule 4013(c)(3) to forego the inspection because the firm has issued no audit report with respect to a compliance report filer for two consecutive calendar years.

As previously stated, the proposed approach would apply both to financial statement audits and to the related attestation engagements performed pursuant to Exchange Act Rule 17a-5. Accordingly, audits of broker-dealers that file compliance reports, together with the related AT 1 examination engagements regarding compliance reports, would remain subject to PCAOB inspection. Conversely, audits of broker-dealers that file exemption reports, together with the related AT 2 review engagements regarding exemption reports, would fall outside the scope of the proposed program.

The Board believes that the proposed program scope appropriately accounts for differences in characteristics among categories of broker-dealers.[98] The different characteristics

[98] As stated earlier, Sarbanes-Oxley Section 104(a)(2)(B) requires the Board to consider these differences when establishing inspection schedules and Sarbanes-Oxley Section 104(a)(2)(A) allows the Board to differentiate "among classes of broker-dealers, as appropriate." Section 104(a)(2)(B) of Sarbanes-Oxley refers to auditors of broker-dealers that do not receive, handle, or hold customer securities or cash. The Board considered this category of broker-dealer as well as the related, similar, framework under the Broker-Dealer Customer Protection Rule, including the condition that certain broker-dealers must promptly transmit all customer funds and securities and therefore may claim an exemption from the Broker-Dealer Customer Protection Rule.

While these frameworks are overlapping, they are not coextensive. In particular, a broker-dealer may receive, handle, or hold customer securities or cash in a limited or transitory manner and still be required to promptly transmit such assets, such that it may claim an exemption from the Broker-Dealer Customer Protection Rule. Conversely, the statutory language in Sarbanes-Oxley Section 104(a)(2)(B) refers strictly to whether customer assets are received, handled, or held, without regard to the nature or duration of that activity.

The Board's proposed approach relies on whether a broker-dealer promptly transmits customer funds and securities, as reflected in its status as an exemption report filer under Exchange Act Rule 17a-5, because that standard provides an objective, observable, and administrable basis for distinguishing broker-dealers that do not

of categories of broker-dealers create various risk profiles. Because introducing broker-dealers generally do not maintain custody of customer assets in the same manner as carrying or clearing broker-dealers, the direct custody-related risks to their customers may be lower than for customers of their carrying and clearing counterparts. Therefore, viewed through that risk lens, an inspection program with a focus on auditors of carrying and clearing broker-dealers would direct PCAOB inspection oversight to the engagements most directly associated with the risk of customer harm.

The Board recognizes that no inspection program can eliminate all risk and that customer harm could arise outside the population of carrying and clearing broker-dealers. While broker-dealers that file exemption reports may pose certain risks to investors, the Board believes that inspection oversight of the audit operates as a more direct and effective investor-protection mechanism when audit failures could undermine assurance regarding compliance with the Broker-Dealer Customer Protection Rule, reserve computation requirements, and related safeguards that are directly tied to the prevention of customer asset loss. By contrast, for broker-dealers that do not receive, handle, or hold customer funds or securities, inspection oversight does not necessarily mitigate investor risks as directly, as many of the relevant risks are addressed primarily through other components of the regulatory framework.

Differential treatment of different categories of broker-dealers would also better align regulatory costs with expected investor-protection benefits. The proposed scope is grounded principally in the relative investor-protection benefits of inspection; reduced inspection-related burden is an additional consideration, not the basis for the proposal. As discussed above, the proposal reflects the Board's judgment that PCAOB inspection is most likely to advance investor protection and audit quality when directed to engagements where audit or attestation deficiencies could most directly undermine customer-asset safeguards. The proposed scope is grounded in the Board's assessment of relative customer-asset risk, the nature of the audit and attestation work performed for different categories of broker-dealers, evidence developed through the interim inspection program, and the existence of other regulatory safeguards. The resulting reduction in inspection-related burdens associated with audits of exemption report filers is a consequence of concentrating inspection oversight where it is expected to provide the greatest incremental investor-protection and audit-quality benefit. SEC requirements, DEA oversight, PCAOB standards, audits, attestation engagements, and existing regulatory oversight provide important safeguards and will continue to do so under the proposal. The Board has considered those resulting burden reductions as part of its overall assessment, while grounding the proposed scope principally in the relative investor-protection and audit-quality benefits of inspection.

In consideration of the foregoing, the Board believes that a permanent program focused on audits of compliance report filers and excluding those of exemption report filers would

present the types of custody-related risks that the proposed permanent inspection program is designed to address.

appropriately align PCAOB oversight with the Board's investor-protection and audit-quality objectives while reducing regulatory burden where inspection is expected to provide comparatively lower incremental benefits.

d. Reliance on Compliance and Exemption Report Filings

The Board believes that reliance on compliance report filing status to identify clearing and carrying firms is appropriate because those filings are designed under Exchange Act Rule 17a-5 to reflect when a broker-dealer carries or holds customer assets. Therefore, the filings generally align with the presence or absence of customer-asset custody risk. In addition, because broker-dealers are subject to legal and regulatory consequences for materially inaccurate filings, there is a strong incentive for firms to accurately report their status.[99]

In this context, reliance on the PCAOB's access to reliable, accurate data reflects a practical consideration in designing and administering the inspection program. The proposed approach relies on objective, standardized information already available to the PCAOB through existing regulatory filings to determine inspection scope and frequency. Because the PCAOB's statutory authority extends to registered public accounting firms rather than broker-dealers, the use of information reported in SEC filings provides an objective and administrable means of implementing the inspection program. Using these filings as the basis for scoping decisions allows the program to be implemented using clear, verifiable criteria, reduces the need for subjective or case-by-case determinations, and promotes consistency, predictability, and administrability of the inspection framework.

The Board acknowledges that a broker-dealer could file an exemption report without being eligible to do so or otherwise fail to satisfy the conditions of an exemption, which could reduce the effectiveness of filing status as a means of identifying broker-dealers that present the most direct customer-asset risks. In evaluating that risk, the Board considered both the results of the interim broker-dealer auditor inspection program and the broader regulatory framework applicable to broker-dealers. As discussed further in Section IV.A.ii, the staff's review of inspection data identified relatively few review-engagement deficiencies that suggested that a broker-dealer may have improperly claimed eligibility to file an exemption

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[99] *See* Exchange Act Rule 17a-5(d), which requires broker-dealers to file either a compliance report or an exemption report depending on whether the broker-dealer claimed an exemption from the Broker-Dealer Customer Protection Rule during the most recent fiscal year. *See also* Exchange Act Sections 17(a) and 17(e), which authorize the Commission to require broker-dealers to make and keep records and file reports concerning their financial condition and impose liability for materially false or misleading statements in such filings. *See, e.g.*, SEC, *In the Matter of Stephen J. Horning*, Exchange Act Release No. 56886 (Dec. 3, 2007) (Commission Opinion) (broker-dealer's president and financial and operations principal was liable for, among other things, causing the broker-dealer's violation of Exchange Act Sections 17(a), (e) and Exchange Act Rule 17a-5 thereunder, arising out of the broker-dealer's inaccurate and materially false SEC FOCUS and other reports), *aff'd*, *Horning v. SEC*, 570 F.3d 337 (D.C. Cir. 2009). In addition, the SEC can institute proceedings against a broker-dealer or its associated person for, among other things, willfully making false statements in any application or report filed with the Commission. *See* 15 U.S.C. 78o(b)(4)(A), (6)(a)(i).

report. The Board recognizes that this observation may reflect, in part, the oversight provided through the interim broker-dealer auditor inspection program and that excluding exemption report filer engagements from the PCAOB's inspection of a firm could reduce scrutiny of exemption claims. However, the Board believes this risk is mitigated by Commission and DEA oversight, ongoing reporting requirements, and the continuing requirement that audits and reviews be performed in accordance with Commission requirements and PCAOB standards. These requirements provide multiple mechanisms through which questions regarding exemption eligibility may be identified and addressed.

Based on these considerations, the Board believes that filing status provides a reasonably reliable and administrable means of distinguishing between broker-dealers that generally maintain customer assets and those that generally do not for purposes of structuring a permanent broker-dealer auditor inspection program. The Board recognizes that no classification method can eliminate all risk and that instances of improper exemption claims may occur. However, the Board believes the available evidence indicates that such circumstances are not sufficiently prevalent to undermine the use of filing status as an objective criterion for focusing regular inspections on engagements associated with the most direct customer-asset risks while avoiding more subjective and less predictable case-by-case scope determinations.

Questions:

1. Should the Board focus regular PCAOB inspection oversight on reviewing audits and attestation engagements associated with broker-dealers that file compliance reports, including carrying and clearing broker-dealers? Why or why not?
2. Should audits and related attestation engagements of broker-dealers that file exemption reports be excluded from a permanent PCAOB broker-dealer auditor inspection program, as proposed? Why or why not? If not, what alternative approach should the Board consider?
3. Should the Board exclude audits of exemption report filers from the population of engagements subject to review during an inspection even where the audit firm remains subject to PCAOB inspection on another basis, such as issuer audits? Why or why not?
4. Should the scope of the permanent broker-dealer auditor inspection program include reviews of any engagements involving exemption report filers? Why or why not? If so, what objective criteria, such as customer accounts, registered persons, capital measures, market activity, or a combination of factors, should determine inclusion and why? Please address the reliability, administrability, benefits, and costs of any suggested criteria. See also Section IV.D.iii.a and Question 47 for further discussion of potential criteria for determining the scope of the program.
5. Should the Board incorporate additional criteria into the scope determination, either in lieu of or in addition to filing status? If so, which criteria would improve the alignment of inspection oversight with investor-protection objectives and why?
6. Is filing status an appropriate and reliable means of identifying engagements that present the most direct customer-asset risks? Why or why not?

7. Are there existing regulatory, supervisory, or other market-based mechanisms outside the PCAOB that the Board should consider in evaluating the risk associated with exemption claims or noncompliance with exemption conditions?
8. Are there potential implications of the proposed exclusion of audits of exemption report filers from the PCAOB's permanent inspection program for the application of other professional standards or quality-review programs to firms performing those engagements, including the AICPA Peer Review Program? For example, could the proposal result in firms becoming subject to additional professional standards or quality-review requirements when performing these engagements? If so, what are those implications?
9. Are there legal, regulatory, practical, or other considerations associated with applying the proposed broker-dealer auditor inspection program to non-U.S. registered public accounting firms? If so, please describe those considerations and any steps the Board should consider to address them.

ii. Definitions, Reporting Scenarios, and Administrative Features

a. Definitions

Proposed Rule Text – Definitions

Rule 4013(a): For purposes of this Rule, in reference to a broker or dealer with respect to which a registered public accounting firm (i) prepared or issued an audit report or (ii) played a substantial role in the preparation or furnishing of an audit report–

(1) the term "FOCUS Report" means a Financial and Operational Combined Uniform Single Report on Part II or Part IIA of Commission Form X-17A-5, as applicable;

(2) the term "compliance report filer" means an entity that, with respect to the most recent fiscal year that the audit report addressed, filed a compliance report pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*1*);

(3) the term "compliance report" means a report required by and filed pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*1*);

(4) the term "exemption report filer" means an entity that, with respect to the most recent fiscal year that the audit report addressed, filed an exemption report pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*2*);

(5) the term "exemption report" means a report required by and filed pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*2*).

Note 1: For the avoidance of doubt, a broker or dealer that filed neither a compliance report pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*1*) nor an exemption report pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*2*) shall be treated as:

(A) a compliance report filer if, for any period ended during the most recent fiscal year that the audit report addressed, it filed a FOCUS Report in which it did not identify a basis for exemption from 17 C.F.R. § 240.15c3-3; or

(B) an exemption report filer if, for all periods ended during the most recent fiscal year that the audit report addressed, it filed FOCUS Reports in each of which it identified a basis for exemption from 17 C.F.R. § 240.15c3-3.

Note 2: Notwithstanding Rule 4013(a)(4), if a broker or dealer filed both a compliance report and an exemption report with respect to the same fiscal year, the broker or dealer shall be considered a compliance report filer for purposes of this Rule.

Proposed PCAOB Rule 4013(a) would define the terms "FOCUS Report," "compliance report filer," "compliance report," "exemption report filer," and "exemption report" for purposes of the proposed program. These definitions would provide the objective framework used to determine which broker-dealer audit engagements are within the scope of the proposed program, which public accounting firms would be exempt from registration with the Board on the basis of their broker-dealer practices, and the inspection frequency applicable to registered public accounting firms that audit broker-dealers. The definitions generally rely on whether the broker-dealer filed a compliance report or exemption report under Exchange Act Rule 17a-5. FOCUS Reports would be considered only in the limited circumstance addressed by Note 1, when the broker-dealer filed neither report. [100]

For all purposes under proposed Rule 4013, a broker-dealer's classification as a compliance report filer or exemption report filer would be governed exclusively by the definitions and accompanying notes in proposed Rule 4013(a). Except in the circumstances addressed by Notes 1 and 2, the classification would depend solely on whether the broker-dealer filed a compliance report or an exemption report with respect to the most recent fiscal year that the audit report addressed. The Board would not independently determine, for purposes of administering Rule 4013, whether the broker-dealer was required or otherwise permitted under Commission rules to make the filing, whether the filing accurately reflected the broker-dealer's activities, or whether the broker-dealer satisfied the conditions underlying the filing.

Under proposed PCAOB Rule 4013(a)(2), the term "compliance report filer" would refer to a broker-dealer that, with respect to the most recent fiscal year that the audit report addressed, filed a compliance report as part of its annual report under Exchange Act Rule 17a-5. The definition uses the filing of a compliance report as an objective proxy for identifying the carrying or clearing segment on which the proposed program would focus.

[100] Parts II and IIA of Commission Form X-17A-5 are the forms on which broker-dealers generally file their FOCUS Reports. Part III of Commission Form X-17A-5 is the form on which broker-dealers file their annual reports pursuant to Exchange Act Rule 17a-5.

Proposed PCAOB Rule 4013(a)(3) also would define "compliance report" by reference to the report required and filed under Exchange Act Rule 17a-5. As discussed in Section II.D, a compliance report contains assertions concerning, among other matters, the effectiveness of a broker-dealer's internal control over compliance and its compliance with specified broker-dealer financial responsibility rules.

The term "exemption report filer" would refer to a broker-dealer that, with respect to the most recent fiscal year that the audit report addressed, filed an exemption report as part of its annual report under Exchange Act Rule 17a-5. The definition also would accommodate certain broker-dealers that filed an exemption report pursuant to the Commission's interpretation of Exchange Act Rule 17a-5, notwithstanding that they did not formally identify an exemption under paragraph (k) of the Broker-Dealer Customer Protection Rule. The Commission recognized this reporting treatment in the 2013 adopting release for the broker-dealer reporting amendments, and Commission staff subsequently provided guidance regarding its application.[101] The definition is intended to capture broker-dealers whose reporting status generally indicates that they are exempt from the requirements of the Broker-Dealer Customer Protection Rule or otherwise are permitted to file an exemption report under the Commission's broker-dealer reporting framework.

Proposed PCAOB Rule 4013(a) would separately define "exemption report" by reference to the report required and filed under Exchange Act Rule 17a-5. As discussed in Section II.D, an exemption report identifies the basis on which the broker-dealer is exempt from the requirements of the Broker-Dealer Customer Protection Rule or, in certain circumstances recognized by the Commission and addressed in subsequent staff guidance, the basis on which the broker-dealer is permitted to file an exemption report notwithstanding that it does not formally claim an exemption under paragraph (k) of the Broker-Dealer Customer Protection Rule.

Questions:

10. Are the proposed definitions sufficiently clear? If not, how would you enhance their clarity?
11. Are there other terms that should be defined under the permanent program rule?

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[101] The Commission observed in footnote 74 of the 2013 Broker-Dealer Reports Adopting Release that certain broker-dealers that do not fit within the exemption provisions of paragraph (k) of the Broker-Dealer Customer Protection Rule nevertheless may file an exemption report. The staff of the SEC's Division of Trading and Markets subsequently provided guidance addressing circumstances in which such treatment may be available. *See* SEC Division of Trading and Markets, *Frequently Asked Questions Concerning the July 30, 2013 Amendments to the Broker-Dealer Financial Reporting Rule*, Questions 8 and 11, available at https://www.sec.gov/rules-regulations/staff-guidance/trading-markets-frequently-asked-questions-4. The FAQ states that it represents the views of Division staff and "is not a rule, regulation, or statement of the Commission."

b. Treatment of Certain Broker-Dealer Reporting Scenarios

The proposed definitions of compliance report filer and exemption report filer are intended to provide an objective and administrable framework under which a broker-dealer's classification is determined by the report it filed under Exchange Act Rule 17a-5, subject only to the specific circumstances addressed in Notes 1 and 2 of proposed PCAOB Rule 4013(a).

The PCAOB has observed that, historically, some broker-dealers have not filed either a compliance report or an exemption report for a given fiscal year. In those circumstances, per Note 1 to proposed PCAOB Rule 4013(a), the broker-dealer's status would be determined by the Board based on whether its FOCUS Reports identified a basis for exemption from the Broker-Dealer Customer Protection Rule. A broker-dealer that had filed neither a compliance report nor an exemption report would be treated as a compliance report filer if, for any period ended during the most recent fiscal year that the audit report addressed, it filed a FOCUS Report that did not identify a basis for exemption from the Broker-Dealer Customer Protection Rule. It would be treated as an exemption report filer only if, for all such periods, each FOCUS Report identified a basis for exemption. This approach is intended to provide a practical method for addressing the absence of a required filing while permitting the Board to consider relevant regulatory information when available.

Proposed Note 2 would address the circumstance in which a broker-dealer files both a compliance report and an exemption report with respect to the same fiscal year, including as a result of a change in the broker-dealer's status during the fiscal year. Notwithstanding the definition of exemption report filer in proposed Rule 4013(a)(4), the broker-dealer would be treated as a compliance report filer. This treatment would provide a clear and administrable basis for determining the broker-dealer's status under the proposed inspection program without requiring the Board to determine, for that purpose, whether either filing was required or otherwise appropriate under Commission rules.

The Board also recognizes the potential risk that a broker-dealer could incorrectly claim exemption status, whether through error or misconduct, despite engaging in activities that involve the receipt, handling, or holding of customer assets. In such circumstances, an engagement that otherwise would fall within the scope of the proposed program could inadvertently be treated as outside the program because accurate information regarding the broker-dealer's status is unavailable. While such circumstances could increase the potential for investor harm, the Board believes that reliance on compliance and exemption report filing status remains appropriate as a practical proxy for the nature of a broker-dealer's operation, given the legal requirements governing those determinations, the incentives for accurate reporting, the presence of other regulatory mechanisms designed to identify and address such misclassifications, and the Board's limited ability to independently assess the activities of broker-dealers because they are not subject to the Board's jurisdiction. Specifically, several features of the existing regulatory framework mitigate this misclassification risk, as discussed in Section III.B.i.b, including Commission and self-regulatory organization oversight, reporting requirements under Exchange Act Rule 17a-5, the requirement that exemption reports be

subject to review by an independent public accountant under Exchange Act Rule 17a-5 and applicable PCAOB standards, and the continuing applicability of Commission enforcement authority. Nevertheless, the Board recognizes that these safeguards may not eliminate the possibility of misclassification and seeks comment on whether additional measures are warranted.

Questions:

12. The proposed PCAOB rule addresses circumstances in which a broker-dealer fails to file a compliance report or exemption report under Exchange Act Rule 17a-5. Is the proposed treatment of such broker-dealers appropriate? If not, how should they be classified for purposes of determining inspection scope?
13. Are there additional circumstances involving the failure to file Commission Form X-17A-5 that the Board should address in the final PCAOB rule? If so, how should those circumstances affect the determination of inspection scope?
14. The proposed rule does not specify how a broker-dealer would be classified if it filed neither a compliance report nor an exemption report and filed no FOCUS Reports for the relevant fiscal year. Should the rule address this scenario? If so, how should such a broker-dealer be classified?
15. The proposed rule does not explicitly address how a broker-dealer would be classified if it incorrectly filed an exemption report when Exchange Rule 17a-5 required the broker-dealer to file a compliance report, or if it filed FOCUS Reports in each of which it incorrectly identified a basis for exemption from the Broker-Dealer Customer Protection Rule. Should the rule explicitly address either scenario? If so, how should such a broker-dealer be classified?
16. Because the proposed program relies on compliance report and exemption report filing status, should the Board address situations in which it becomes aware that a broker-dealer incorrectly claimed an exemption from the Broker-Dealer Customer Protection Rule and filed an exemption report rather than a compliance report? How? Are existing regulatory safeguards sufficient to address this risk in light of the scope of the proposed program, or would additional mechanisms provide meaningful incremental investor-protection benefits?

c. Withdrawal Applications

Proposed Rule Text – Withdrawal

Rule 4013(f): With respect to a registered public accounting firm that has filed a completed Form 1-WD under Rule 2107, the Board shall have the discretion to forego any regular inspection that would otherwise commence during the period beginning on the date of Board receipt of a completed Form 1-WD and continuing until the firm's registration is deemed withdrawn or the firm withdraws the Form 1-WD.

Proposed PCAOB Rule 4013(f) would provide that, with respect to a registered public accounting firm that has filed a completed PCAOB Form 1-WD pursuant to PCAOB Rule 2107, the Board would have discretion to forego a regular inspection that would otherwise commence during the period beginning on the date the Board receives the completed PCAOB Form 1-WD and continuing until the firm's registration is deemed withdrawn or the firm withdraws the Form 1-WD. The Board believes this provision would provide appropriate flexibility in circumstances in which a firm has initiated the withdrawal process and may no longer be performing engagements that would otherwise subject it to inspection under the proposed program.[102]

The proposed PCAOB rule is modeled on the Board's existing issuer-inspection framework, which similarly provides the Board discretion to forego inspections of firms with pending withdrawal applications. The Board believes that providing comparable treatment in the broker-dealer auditor inspection program would promote consistency across the Board's inspection programs while preserving the Board's ability to conduct inspections when appropriate.

The proposed PCAOB rule would not require the Board to forego an inspection in such circumstances. Rather, the Board would retain discretion to determine whether an inspection remains appropriate based on the facts and circumstances, including the status of the withdrawal process and the nature of the firm's broker-dealer audit activities.

Questions:

17. Should the Board have discretion to forego a regular inspection that would otherwise commence while a registered public accounting firm's completed PCAOB Form 1-WD is pending? Why or why not? Should the rule specify additional factors that the Board should consider in determining whether to conduct or forego an inspection in those circumstances?

[102] This scenario is distinguishable from the one discussed in Sec. III(B)(i)(c) in conjunction with proposed PCAOB Rule 4013(d), whereby a firm might seek to avoid an inspection obligation by changing the nature of its audit practice after issuing an audit report for a compliance report filer. Specifically, Note 2 to proposed PCAOB Rule 4013(d) would clarify that, once a registered public accounting firm becomes subject to an inspection obligation under the proposed inspection schedules, that obligation would remain in place unless and until the inspection is completed or otherwise satisfied under the rule. Proposed PCAOB Rule 4013(f), by contrast, addresses a scenario where a firm is seeking to withdraw from PCAOB registration entirely, and the proposed approach would retain the PCAOB's discretion to determine, based on the facts and circumstances, whether conducting an inspection during the pendency of that withdrawal process would further the objectives of the inspection program.

C. Registration Consequences

Proposed Rule Text – Registration Requirements for Public Accounting Firms and Related Exemption

Rule 2100**:**

(a) Each public accounting firm that –

(1) ~~(a)~~ prepares or issues any audit report with respect to any issuer **or with respect to any compliance report filer (as defined in Rule 4013(a)(2))**; or

(2) ~~(b)~~ plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer **or with respect to any compliance report filer (as defined in Rule 4013(a)(2))**

must be registered with the Board.

Under the proposed program, a registered public accounting firm that, during the relevant lookback period discussed in Section III.B.i, issued audit reports only for broker-dealers that filed exemption reports would be excluded from the inspection program.

Pursuant to Sarbanes-Oxley Section 104(a)(2)(D), a firm that is exempt from the broker-dealer auditor inspection program would not be required to register with the PCAOB.[103] Note 1 to proposed PCAOB Rule 4013(d) would clarify that, absent another basis requiring registration, a public accounting firm that is exempt from the broker-dealer auditor inspection program is not required to register with the Board. This clarification reflects Sarbanes-Oxley Section 104(a)(2)(D) and is intended to make explicit the registration consequences of the proposed exemption. A firm that is required to register on a basis other than its broker-dealer audit work, such as because it audits issuers, would remain subject to PCAOB registration requirements and oversight on that basis. This exclusion would not eliminate an inspection obligation that arose before the firm became eligible for the exclusion, as reflected in Note 2 to proposed PCAOB Rule 4013(d). Accordingly, a firm that became subject to inspection based on prior audits of compliance report filers would remain subject to that inspection obligation notwithstanding a subsequent change in its broker-dealer audit practice.

Thus, under the proposal, a firm that audits both issuers and exemption report filers would:

- be required to register with the PCAOB,

[103] Sarbanes-Oxley Section 104(a)(2)(D) provides that a public accounting firm "shall not be required to register with the Board if the public accounting firm is exempt from the inspection program which may be established…under subparagraph (A)."

- be subject to inspection with respect to its audits of issuers, and
- not be subject to inspection with respect to its audits of exemption report filers.

Similarly, a firm that audits both compliance and exemption report filers would be required to register with the PCAOB and undergo inspections only with respect to audits of broker-dealers that file compliance reports.

Consistent with Sarbanes-Oxley Section 104(a)(2), the proposed amendments to PCAOB Rule 2100 would require PCAOB registration for accounting firms that prepare or issue audit reports, or play a substantial role in the preparation or furnishing of audit reports, with respect to issuers or compliance report filers, but would not require registration for a firm that would otherwise be required to register solely because of audit work with respect to exemption report filers. Note 1 to proposed PCAOB Rule 4013(d) clarifies this registration consequence such that, pursuant to the authority described in Sarbanes-Oxley Section 104(a)(2)(D),[104] a public accounting firm shall not be required to be registered with the Board if it is exempt from the program of inspection related to audits of broker-dealers.[105]

At the same time, the proposal would not alter the Commission's substantive requirements under Exchange Act Rule 17a-5, as discussed in Section IV.C.i.c.1, including the requirement that broker-dealer audits and related attestation engagements be performed in accordance with PCAOB standards.

Questions:

18. Are the proposed registration-related rules sufficiently clear? Why or why not?

D. Inspection Schedules

Proposed Rule Text – Frequency of Inspection

Rule 4013(c)(1): During each calendar year, beginning no later than the calendar year following the calendar year in which its application for registration with the Board is approved, a registered public accounting firm that, during the prior calendar year, issued

[104] *See id*.

[105] A public accounting firm that is exempt from registration (and does not choose to voluntarily register with the PCAOB) would not be subject to PCAOB reporting, inspection, or enforcement authority (unless it is an associated person of a registered firm). The Board views the registration and related enforcement and reporting consequences of its inspection scoping determination as a function of the statutory framework. Nevertheless, the Board weighed these consequences when it determined to propose to scope out certain audits and auditors from the permanent inspection program. The Board considered that many of the same factors that undergird its inspection scoping determination, namely the relative risks associated with compliance report filers and exemption report filers and existing regulatory safeguards, mitigate the broader loss of PCAOB oversight of auditors that audit only exemption report filers. The economic analysis considers the impacts of the loss of registration, reporting, and enforcement oversight.

audit reports with respect to more than 10 compliance report filers shall be subject to a regular inspection.

Rule 4013(c)(2): At least once in every three calendar years, beginning with the three-year period following the calendar year in which its application for registration with the Board is approved, a registered public accounting firm that, during any of the three prior calendar years, issued an audit report with respect to at least one, but no more than 10, compliance report filers shall be subject to a regular inspection.

Rule 4013(c)(3): Notwithstanding any other provision of this Rule, if, in two consecutive calendar years, a registered public accounting firm issues no audit report with respect to a compliance report filer, the Board shall have the discretion to forego any inspection of that firm that would otherwise be required because of any audit report that the firm had issued with respect to a compliance report filer prior to such calendar years.

Note 1: Inspection frequency for registered public accounting firms that play a substantial role in the preparation or furnishing of audit reports with respect to compliance report filers is governed by Rule 4003(e).

Note 2: For purposes of paragraph (c)(1), audit reports issued during the calendar year in which a firm's application for registration is approved are taken into account in determining whether the firm is subject to inspection in the following calendar year.

Note 3: For purposes of this paragraph, in determining the number of compliance report filers with respect to which a registered public accounting firm has issued audit reports during any period, the firm shall not be treated as having issued an audit report solely because it consented to a compliance report filer's use of a previously issued audit report.

The proposal would establish annual and triennial inspection schedules for registered public accounting firms that audit compliance report filers. Sarbanes-Oxley Section 104(b) and PCAOB Rule 4003 provide annual and triennial inspection frequencies for issuer auditors based on the number of issuer audit reports issued by the firm. The proposed broker-dealer auditor inspection schedules, which would be set forth in section (c) of proposed PCAOB Rule 4013, would use a similar annual/triennial structure, but with thresholds tailored to the smaller and more concentrated broker-dealer audit market. Under the proposed approach, a registered public accounting firm that issues audit reports with respect to more than 10 broker-dealers that file compliance reports would be subject to annual inspection. A registered public accounting firm that issues audit reports with respect to at least one, but no more than 10, broker-dealers that file compliance reports would be subject to inspection at least once every three years.

For purposes of the inspection-frequency thresholds, the Board is proposing not to capture instances in which a registered public accounting firm has merely consented to a compliance report filer's use of a previously issued audit report. The Board preliminarily believes that such consents are not equivalent to undertaking a new audit engagement and

issuing an audit report based on audit work performed for the relevant fiscal year. Accordingly, the Board preliminarily believes that excluding such instances would allow the inspection-frequency thresholds to more accurately reflect the extent of a firm's audit practice involving compliance report filers.

The Board has followed the statutory direction of Sarbanes-Oxley Section 104(a)(2)(B) to consider whether differing schedules would be appropriate for auditors that issue audit reports only for broker-dealers that do not receive, handle, or hold customer securities or cash, or that are not members of SIPC. The proposed program addresses this consideration principally by excluding audits of exemption report filers and applying inspection schedules only to auditors of compliance report filers. The Board believes this approach appropriately considers the factors outlined in Sarbanes-Oxley because the proposed program would differentiate based on customer-asset risk characteristics, while establishing regular annual and triennial inspection schedules based on number of audit reports issued by firms whose broker-dealer audit practices remain within the program.

Establishing inspection schedules applicable to auditors scoped into the permanent broker-dealer auditor inspection program requires judgment. No formula can identify precise, optimal schedules, but the Board believes it is appropriate to make judgments that take into consideration three directional factors. Collectively, these factors are intended to help calibrate inspection frequency in a manner that advances investor protection by directing oversight toward firms presenting relatively greater risk, while avoiding inspection schedules that could impose unnecessary burdens on firms presenting relatively lower risk:

- *Proportionality* – The frequency of inspection should be reasonably proportionate to the risks addressed by the audit and attestation engagements being inspected, including the extent to which those engagements relate to broker-dealers that maintain customer cash or securities and the size of the scoped-in broker-dealer audit practice.
- *Incentives* – The possibility of being inspected, as perceived by an auditor who might not otherwise attempt to maintain the necessary proficiency and carry out its audit and attestation engagements in accordance with applicable rules and standards, should be sufficiently high to increase that auditor's incentives to do so.
- *Balance* – The frequency of inspection should be no more extensive than reasonably necessary to achieve reasonable proportionality and incentives, consistent with the objective of focusing oversight where it is most beneficial while avoiding unnecessary inspection-related costs and burdens.

Based on the most recent data, and as discussed in Section IV.A.i.a, there are 206 auditors that audit broker-dealers.[106] Of these firms, only 14 percent (29 firms) audit broker-

[106] Based on staff analysis of PCAOB data.

dealers that file compliance reports.[107] Under the proposed program, these registered public accounting firms would be divided into annually inspected firms and triennially inspected firms, while accounting firms that audit only broker-dealers filing exemption reports would be excluded from inspection. For further context, in 2025, the PCAOB inspected 61 auditors, covering 103 broker-dealer financial statement audit engagements, 25 examination engagements related to compliance reports, and 66 review engagements related to exemption reports.[108]

In developing the proposal, the Board considered the inspection frequency framework applicable to auditors of issuers under Sarbanes-Oxley Section 104 and PCAOB Rule 4003, which differentiates inspection frequency based on the number of issuer audit clients served by a firm and provides for one-year and three-year inspection cycles. Consistent with that approach, the proposed broker-dealer auditor inspection program would differentiate inspection frequency based on the number of compliance report filers audited by a firm. The proposed more-than-10 threshold is informed by the distribution of compliance report filer audit clients across audit firms. In particular, as set forth in Exhibit 4 of the Economic Analysis in Section IV, the more-than-10 threshold reflects an existing break in the distribution of compliance report filer audit clients: only four firms exceed the threshold, and they collectively audit 89 compliance report filers, compared with 66 compliance report filers audited collectively by the remaining 25 firms. In addition, the Board considered that the parallel annual and three-year inspection cycles could facilitate coordination of issuer and broker-dealer auditor inspections for firms that audit both issuers and broker-dealers. For example, aligning inspection cycles may enable the Board, where appropriate, to coordinate the timing and planning of inspection activities, leverage relevant information across inspection programs, and promote a more consistent oversight approach across the Board's inspection programs.

The proposed inspection frequency also reflects the interaction between risk and scale. Under the proposed program, the inspection population would be limited to a relatively small number of auditors that audit broker-dealers that file compliance reports, which account for the vast majority of aggregate net capital requirements and total assets and, as discussed in Section II.E.ii, provide relevant indicators of where customer-asset related risk is concentrated. Accordingly, we believe audits of these broker-dealers present heightened investor protection risk. In that context, a standardized inspection schedule for auditors of compliance report filers would allow the PCAOB to focus inspection oversight on those audits where the potential benefits of inspection are greatest. By distinguishing among auditors based on the number of compliance report filer audits, the Board could apply more frequent inspection to registered public accounting firms with broader participation in the higher-risk segment of the broker-

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[107] For purposes of this analysis, the firm counts are based on firms that issued audit reports for broker-dealers filing compliance reports and do not reflect firms that may have participated in such engagements in a substantial role. *See supra* note 96.

[108] *See* 2025 Annual Report, at 9-13.

dealer market, while preserving regular oversight of other compliance report filer auditors through a triennial cycle.

In addition to establishing the schedules of inspection, Note 1 to PCAOB Rule 4013(c), as proposed, would also address registered public accounting firms that play a substantial role in the preparation or furnishing of audit reports for compliance report filers by noting that such firms would be governed by current PCAOB Rule 4003(h), proposed to be redesignated as PCAOB Rule 4003(e), consistent with the substantial role framework used in the issuer auditor inspection program.[109] The proposed program would also address how the inspection schedule applies when a firm ceases to perform scoped-in engagements. PCAOB Rule 4013(c)(3), as proposed, would provide that, if in two consecutive calendar years a registered public accounting firm issues no audit report with respect to a broker or dealer that is a compliance report filer, other than by consenting to the use of a previously issued audit report, the Board would have discretion to forego any inspection that otherwise would be required because of audit reports the firm had issued with respect to compliance report filers in prior years. The Board believes that this approach would provide flexibility similar to that available in the issuer auditor inspection program for registered public accounting firms that are no longer actively issuing audit reports.[110]

Further, Note 2 to proposed PCAOB Rule 4013(c) would clarify how the annual inspection threshold applies to newly registered firms. Under the proposal, audit reports issued during the calendar year in which a firm's registration application is approved would be counted for purposes of determining whether the firm is subject to inspection under PCAOB Rule 4013(c)(1) during the following calendar year. The Board believes this clarification appropriately aligns inspection eligibility with the firm's actual broker-dealer audit activity and helps ensure that newly registered firms are subject to inspection schedules that reflect the volume of compliance report filer audits they perform. Absent this clarification, a firm's inspection frequency in the period immediately following registration might not accurately reflect its participation in the broker-dealer audit market.

Annual and triennial inspection of the audits of compliance report filers thus reflects both the risk profile of those firms and the more focused nature of the permanent program.

Questions:

19. Should the Board adopt annual and triennial inspection schedules for registered public accounting firms that audit compliance report filers? Why or why not?
20. Is the threshold of more than 10 compliance report filer audits for annual inspection appropriate? Why or why not?
21. Should the Board consider other factors, in addition to the number of compliance report filer audits, when determining frequency of inspection? For example, should the Board

[109] *See* Section III.F.ii.

[110] *See* PCAOB Rule 4003(e).

consider the nature of the broker-dealers audited, the size of the broker-dealer's net capital requirement or total assets, the firm's broker-dealer audit practice, the number of engagement partners serving on audits of compliance report filers, inspection history, or other factors? If so, which factors and why?

22. Does the Board appropriately balance investor protection and regulatory burden by focusing regular inspection on audits of compliance report filers? Why or why not?
23. To what extent does the proposed inspection schedule approach appropriately direct inspection oversight to engagements where inspection is most likely to improve assurance over obligations related to the protection of customer cash and securities?
24. Would the proposed inspection schedule impose additional burdens on engagement partners involved in audits of compliance report filers? If so, please describe the nature and extent of those burdens. For example, could the proposed schedule result in the same engagement partners being subject to inspection with greater frequency because of the limited number of partners who specialize in broker-dealer audits? If so, what effect, if any, could this have on firms' willingness to perform such engagements or on the availability of experienced auditors in this market? Commenters are also encouraged to discuss any investor-protection or audit-quality benefits associated with the proposed inspection frequency.

E. Format of Inspection Reports

Proposed Rule Text – Reporting

Rule 4013(e): A written report of the findings of the Board for each inspection under this Rule shall be issued subject to Rules 4007, 4008, and 4009.

i. Inspection Reports

Under the proposal, the PCAOB would issue and publish individual, firm-specific inspection reports for inspections conducted under the permanent program of inspection related to audits of broker-dealers, rather than a single collective, anonymized annual report as under the interim program.[111] This would represent a significant change from the interim broker-dealer auditor inspection program's collective and anonymized reporting framework and is intended to provide greater transparency regarding inspection findings and the quality of auditors serving broker-dealers. The Board also believes that the proposal may promote audit quality by facilitating the operation of the existing remediation framework for quality-control criticisms under PCAOB Rule 4009, thereby encouraging firms to address identified quality-control deficiencies in a timely manner.

Proposed PCAOB Rule 4013(e) would require the Board to prepare a written report of the findings of each inspection conducted under the permanent broker-dealer auditor

[111] *See* PCAOB Rule 4020T(d).

inspection program. Consistent with the Board's existing issuer auditor inspection framework, the report would be made available to the inspected firm, the Commission, and the public, subject to applicable statutory and regulatory limitations on disclosure. Reports issued pursuant to proposed PCAOB Rule 4013(e) would remain subject to PCAOB Rules 4007, 4008, and 4009, which govern various aspects of the reporting and publication of inspection findings. Inspection reports would follow the Board's established inspection-report framework, including public and initially nonpublic portions, with quality-control criticisms remaining non-public during a remediation period, consistent with Sarbanes-Oxley Section 104(g). The proposed PCAOB rule would establish these basic reporting requirements but would not prescribe the specific format, organization, or presentation of inspection findings.

Inspection reports would identify the inspected audit firm, consistent with the Board's existing approach to firm-specific inspection reports. Also consistent with the Board's existing approach to firm-specific inspection reports, the reports would not directly identify specific audit clients (i.e., broker-dealers). This approach reflects the Board's statutory role in overseeing registered public accounting firms and their compliance with applicable auditing and attestation standards, rather than regulating broker-dealers directly, which remain subject to oversight by the Commission, DEAs including FINRA and other self-regulatory organizations, and other applicable regulators.

The Board believes that this reporting approach is particularly appropriate in light of the narrower focus of the proposed permanent broker-dealer auditor inspection program. Because the program would apply to a smaller population of broker-dealer auditors that the Board has identified as presenting relatively higher investor-protection risk, firm-specific reporting permits more particularized and decision-useful disclosure. Under the interim program, inspection observations are communicated through a collective and anonymized annual report that does not identify individual registered public accounting firms. By contrast, the proposed approach would provide stakeholders with firm-specific information regarding inspection findings, permitting investors, broker-dealers, audit committees (or their equivalents), regulators, counterparties, and other interested persons to better understand the inspection results associated with particular registered public accounting firms. Increased transparency regarding inspection findings also may strengthen accountability and incentives to maintain and improve audit quality, while providing more useful information to market participants evaluating the quality of audit services.

Such reporting may benefit inspected registered public accounting firms by providing clearer, firm-specific feedback that facilitates targeted remediation and internal quality-control improvements, and may benefit investors, audit committees (or their equivalents), counterparties, and other stakeholders by providing more granular information regarding inspection findings. The publication of individual inspection reports is expected to enhance the overall effectiveness of the inspection process. Public reporting increases the salience of, and accountability for, inspection findings, strengthens incentives for timely remediation, and

reinforces the role of inspections as a tool for promoting audit quality and investor protection within the broker-dealer market.[112]

For registered public accounting firms that are subject to PCAOB oversight, the proposed rule text would not specify whether the broker-dealer auditor inspection report would be a separate report or consolidated with the issuer-based inspection report. The Board anticipates that, for annually and triennially inspected firms, it may be feasible and efficient to include the broker-dealer auditor inspection findings in a consolidated report. A consolidated reporting approach also would promote consistency in the presentation of inspection findings for firms that audit both issuers and broker-dealers. By not specifying this aspect of reporting in the proposed PCAOB rule text, the proposed approach would retain flexibility for the PCAOB in this regard.

ii. Remediation of Quality-Control Criticisms

With respect to remediation of quality-control criticisms, the Board would apply the remediation framework currently used for issuer auditor inspections pursuant to Sarbanes-Oxley Section 104(g)(2):

> "A written report of the findings of the Board for each inspection under this section, subject to subsection (h), shall be—
>
> […]
>
> (2) made available in appropriate detail to the public (subject to section 105(b)(5)(A), and to the protection of such confidential and proprietary information as the Board may determine to be appropriate, or as may be required by law), except that no portions of the inspection report that deal with criticisms of or potential defects in the quality control systems of the firm under inspection shall be made public if those criticisms or defects are addressed by the firm, to the satisfaction of the Board, not later than 12 months after the date of the inspection report."

The Board believes this approach is appropriate because it reflects the remediation framework established by Sarbanes-Oxley Section 104(g)(2) and promotes consistency across PCAOB inspection programs. The interim program's collective reporting framework did not contemplate application of the Board's ordinary remediation process to broker-dealer auditor

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[112] *See, e.g.*, Daniel Aobdia, *The Impact of the PCAOB Individual Engagement Inspection Process—Preliminary Evidence*, 93 The Accounting Review 53 (2018) (finding that audit firms take corrective action on engagements with Part I findings. The study also suggests spillover effects of Part I findings and shows that after receiving a Part I finding, firms also tend to increase their effort on non-inspected engagements. In addition, the study shows that issuers whose audits received a Part I finding are 18 percent more likely to switch auditors compared to non-inspected engagements). *See also* infra note 146; Albert L. Nagy, *PCAOB Quality Control Inspection Reports and Auditor Reputation*, 33 Auditing: A Journal of Practice and Theory 87 (2014) (finding firms tend to lose clients following the public disclosure of Part II of the inspection report). These studies refer to issuer auditor inspection programs.

inspection findings.[113] Under the proposed program, however, broker-dealer auditor inspections generally would be conducted under the same inspection framework applicable to other PCAOB inspections, making application of the existing remediation process appropriate. The Board also believes that this approach encourages timely remediation of quality-control deficiencies by firms wanting to avoid public disclosure.

The Board expects the remediation process for quality-control criticisms identified through inspections conducted under proposed PCAOB Rule 4013 to be integrated, to the extent practicable, with the Board's existing remediation framework for registered public accounting firms. The Board does not anticipate requiring firms to maintain separate populations of quality-control deficiencies for broker-dealer and issuer practices where the underlying quality-control criticism relates to the firm's system of quality control more broadly. Rather, remediation would be evaluated consistent with the Board's generally applicable approach to quality-control criticisms and remediation. Similarly, where a quality-control criticism is relevant to both a firm's broker-dealer and issuer audit practices, the Board would not generally expect the same criticism to be separately identified in different inspection reports (or different sections of a unified inspection report). This approach is also consistent with the firm's obligation under the PCAOB's QC 1000 to design, operate, and evaluate a system of quality control applicable to its PCAOB practice as a whole, rather than maintaining separate quality-control systems for issuer and broker-dealer engagements.

Questions:

25. Should the Board provide for individual, firm-specific inspection reports under the permanent program of inspection related to audits of broker-dealers? Please explain your rationale.
26. To what extent could the issuance of firm-specific inspection reports for triennially inspected firms result in the identity of a broker-dealer audit client being inferred from information contained in the report? What steps, if any, should the Board take to mitigate that risk while continuing to provide meaningful information regarding inspection findings?
27. Should broker-dealer audit inspection findings for registered public accounting firms that also audit issuers be issued in separate reports or consolidated with issuer audit inspection findings? Please explain your rationale.
28. The proposed PCAOB rules do not currently prescribe the format or organization of inspection reports issued under the permanent broker-dealer auditor inspection program. Should the Board retain flexibility in determining how broker-dealer auditor inspection observations are reported, or should the Board establish a more specific reporting framework? For example, should findings related to financial statement audits and examinations of compliance reports (including testing of ICOC) be presented in separate sections of an inspection report? Why or why not?

[113] *See* Temporary Rule Adopting Release at 11 n.35 (explaining the inapplicability of PCAOB Rule 4009 in the absence of a firm-specific inspection report).

F. Integration with Existing PCAOB Registration and Inspection Rules

As discussed below, the proposal would: (i) replace the interim inspection framework with a permanent program tailored to audits of broker-dealers; (ii) integrate firms that play a substantial role in broker-dealer audits into the Board's existing substantial-role inspection framework; (iii) remove outdated inspection provisions that no longer have operative effect; and (iv) clarify the application of the Board's existing PCAOB inspection rules to inspections conducted pursuant to proposed PCAOB Rule 4013. Together, these amendments are intended to incorporate the permanent broker-dealer auditor inspection program into the Board's broader registration and inspection framework while promoting consistency across PCAOB inspection programs.

i. Repeal of PCAOB's Interim Inspection Rule

PCAOB Rule 4020T, *Interim Inspection Program Related to Audits of Brokers and Dealers*, established a temporary interim inspection program to permit the Board to begin inspecting auditors of broker-dealers while it gathered information to inform the scope, frequency, and other elements of a permanent inspection program. The interim program was intentionally broad and did not reflect a final determination regarding whether the Board should differentiate among classes of broker-dealers, exempt categories of public accounting firms from inspection, or adopt particular inspection schedules.

With the proposed adoption of PCAOB Rule 4013, the Board would replace that temporary framework with a permanent inspection program that specifies the broker-dealer audit engagements and registered public accounting firms subject to inspection, establishes annual and triennial inspection schedules for auditors of compliance report filers, and provides for firm-specific inspection reporting. Because proposed PCAOB Rule 4013 would supersede the interim program and would provide the operative framework for broker-dealer auditor inspections going forward, PCAOB Rule 4020T would no longer be necessary.

Accordingly, the proposal would formally repeal PCAOB Rule 4020T in its entirety. The repeal would not affect the Board's authority to use information and experience obtained through the interim inspection program in developing, adopting, or administering the permanent program. Rather, the repeal would remove the temporary PCAOB rule from the Board's rules once the permanent program is in place and would avoid maintaining overlapping inspection provisions applicable to the same subject matter.

ii. Treatment of Firms that Play a Substantial Role in Broker-Dealer Audits

Proposed Rule Text – Substantial Role Firms

Rule 4003(~~h~~**e**): In each calendar year, the Board shall conduct regular inspections of some registered public accounting firms that reported on an annual report on Form 2 having played a substantial role in the preparation or furnishing of an audit report with respect to an issuer **or with respect to a compliance report filer (as defined in Rule 4013(a)(2))** in any of the four

most recent annual reporting periods through March 31 of that calendar year without having reported on an annual report on Form 2 having issued an audit report with respect to an issuer **or with respect to a compliance report filer** in any of those reporting periods. The number of such registered public accounting firms that the Board shall inspect in any particular calendar year shall be at least five percent of the **combined** number of registered public accounting firms that, by June 30 of the preceding calendar year, reported on an annual report on Form 2 for the reporting period ending on March 31 of the preceding calendar year having played a substantial role in the preparation or furnishing of an audit report with respect to an issuer **or with respect to a compliance report filer** without having issued an audit report with respect to an issuer **or with respect to a compliance report filer** in that reporting period.

The proposal would also establish an inspection framework for registered public accounting firms that play a substantial role in the preparation or furnishing of audit reports with respect to compliance report filers but do not themselves issue such audit reports. The proposed amendments to current PCAOB Rule 4003(h), proposed to be redesignated as PCAOB Rule 4003(e), are intended to ensure that a portion of these firms remain subject to inspection oversight notwithstanding their limited role in the audit-report issuance process.

A firm generally plays a substantial role when it performs material services or a certain percentage of the audit procedures, as defined in PCAOB Rule 1001(p)(ii), used or relied on by the lead auditor. The proposal would not alter the "substantial role" definition. Rather, the proposal would apply the Board's existing substantial-role inspection framework to auditors of compliance report filers.

Under the proposed approach, the Board would annually inspect at least five percent of the population of registered public accounting firms that reported on PCAOB Form 2 that they played a substantial role in the preparation or furnishing of an audit report for an issuer or compliance report filer, but did not themselves issue an audit report for an issuer or compliance report filer. Rather than creating a separate inspection pool for firms that play a substantial role with respect to broker-dealer engagements, the proposal would incorporate such firms into the Board's existing substantial role framework and apply the current five-percent inspection threshold across the combined issuer and broker-dealer population.

The Board believes this approach is appropriate because substantial role firms may participate in important audit work even though they do not issue the audit report. Consistent with the Board's current treatment of substantial role firms in the issuer auditor inspection program, the proposal would permit the Board to obtain insight into the quality of work performed by such firms while avoiding the need to establish a separate inspection structure for broker-dealer substantial role engagements.

The proposal would not establish a separate inspection-selection methodology for firms that play a substantial role in the preparation or furnishing of audit reports for compliance

report filers. Instead, broker-dealer substantial role firms and issuer substantial role firms would be considered together for purposes of determining the minimum number of substantial role firms subject to inspection each year. The Board believes that this approach promotes consistency across its inspection programs and avoids creating materially different inspection consequences for substantial role participation in issuer and broker-dealer engagements.

The proposal would conform the existing substantial role inspection provision to the proposed broker-dealer auditor inspection program by including firms that play a substantial role in the preparation or furnishing of an audit report with respect to a compliance report filer. The proposed amendments would also clarify that the minimum five-percent inspection requirement would be calculated using the combined population of registered public accounting firms that reported substantial role participation with respect to issuers or compliance report filers, without having issued audit reports for issuers or compliance report filers during the relevant reporting period. These changes are intended to preserve the existing substantial role inspection framework while integrating substantial role participation in compliance report filer audits into that framework.

As a practical matter, the Board is not aware of any firms that have reported playing a substantial role in broker-dealer audit engagements during the interim broker-dealer auditor inspection program. Consequently, if a separate broker-dealer substantial role inspection pool were established, the existence of a single such firm could effectively result in inspection of all broker-dealer substantial role firms. The Board believes that incorporating broker-dealer substantial role firms into the existing issuer substantial role framework avoids that result and produces a more proportionate inspection-selection methodology. At the same time, the reporting history indicates that the proposed approach is not likely to significantly reduce the number of issuer substantial role firms that are inspected each year.

iii. Repeal of Outdated Provisions

The proposal would also repeal current PCAOB Rule 4003(d), PCAOB Rule 4003(f), and PCAOB Rule 4003(g), which are no longer applicable. Those provisions addressed transition periods and inspection timing deadlines that applied during earlier phases of the Board's inspection program, including deadlines for the first inspections of certain registered public accounting firms and related timing provisions. Because the dates referenced in those provisions have long since passed, the provisions no longer have operative effect.

Repealing these outdated provisions would simplify the Board's inspection rules by removing provisions that were necessary to address historical implementation issues. The proposed repeal would not alter the ongoing annual, triennial, or substantial role inspection requirements that would remain in PCAOB Rule 4003, as amended, or the proposed broker-dealer auditor inspection requirements that would be set forth in PCAOB Rule 4013.

iv. Application of Existing PCAOB Inspection Rules

Proposed Rule Text – General

Rule 4000(a): Every registered public accounting firm shall be subject to all such regular and special inspections as the Board may from time-to-time conduct in order to assess the degree of compliance of each registered public accounting firm and associated persons of that firm with the Act, the Board's rules, the rules of the Commission, and professional standards, in connection with its performance of audits, issuance of audit reports, and related matters involving issuers **and compliance report filers (as defined in Rule 4013(a)(2)).**

Proposed Rule Text – Scope of Inspections

Rule 4013(b): An inspection under this Rule shall include review of a registered public accounting firm's compliance with the Act, the Board's rules, the rules of the Commission, and professional standards, in connection with the firm's performance of audits, issuance of audit reports, performance of examination engagements concerning compliance reports, issuance of examination reports, and related matters involving compliance report filers, as applicable.

The Board proposes to amend PCAOB Rule 4000(a), which describes the general scope of the Board's inspection authority. The amendment would clarify that inspections conducted under Section 4 of the Board's rules may include inspections relating to compliance report filers, in addition to inspections relating to issuers. The amendment is intended to conform PCAOB Rule 4000(a) to the proposed program established by PCAOB Rule 4013.

Proposed PCAOB Rule 4013(b) would describe the scope of inspections conducted under the proposed program. The provision is modeled on PCAOB Rule 4000(a), which governs the general scope of inspections relating to issuer audits. Similar to PCAOB Rule 4000(a), proposed PCAOB Rule 4013(b) would clarify that inspections may include review of a firm's compliance with applicable legal, regulatory, and professional requirements in connection with engagements subject to the proposed program. The Board believes that a parallel framework is appropriate because inspections conducted under proposed PCAOB Rule 4013 would serve the same fundamental purpose as inspections conducted under the Board's issuer auditor inspection program: assessing compliance with the Act, Board rules, Commission rules, and applicable professional standards. Further, the rule would clarify that inspections are not limited to the financial statement audit itself but may also include the auditor's examination of the broker-dealer's compliance report and the issuance of the related examination report. The phrase "as applicable" recognizes that not every matter identified in proposed Rule 4013(b) would necessarily be reviewed in every inspection. Consistent with the Board's issuer auditor inspection program, the particular engagements, matters, and areas reviewed would depend on the scope and procedures selected for the inspection.

The proposal would also provide that relevant provisions of the PCAOB Rule 4000 series apply to inspections conducted under proposed PCAOB Rule 4013. These include the provisions of PCAOB Rules 4000, 4001, 4002, 4004, 4006, 4007, 4008, 4009, 4010, 4011, and 4012. Accordingly, registered public accounting firms inspected under PCAOB Rule 4013 would be subject to the same procedures governing the conduct of inspections, issuance of inspection reports, opportunities to respond to inspection findings, and remediation of quality-control criticisms as firms inspected under the Board's existing inspection program (i.e., registered public accounting firms that audit issuers).

Questions:

29. Is the proposed integration of the permanent program of inspection related to audits of broker-dealers into the Board's existing registration and inspection rules appropriate? Why or why not?

G. Conforming Amendments to PCAOB Funding Rules

Proposed Rule Text – Allocation of Broker-Dealer Accounting Support Fee

Rule 7102(a): For purposes of allocating the broker-dealer accounting support fee, those entities that are brokers or dealers **that are compliance report filers as defined in Rule 4013(a)(2)** as of the date the broker-dealer accounting support fee is calculated shall be divided into two classes:

(1) Brokers and Dealers with Average, Quarterly Tentative Net Capital Greater than $5 million

All brokers and dealers whose average, quarterly tentative net capital is greater than $5 million during the calendar year preceding the date the broker-dealer accounting support fee is calculated, other than those described in paragraph**s** (a)(2) of this Rule.

Note: Average, quarterly tentative net capital will be based on the tentative net capital reported by the broker or dealer in the calendar quarterly reports filed pursuant to Commission rules during the calendar year preceding the date the broker-dealer accounting support fee is calculated.

(2) Brokers and Dealers Permitted Not to File Audited Financial Statements and Brokers and Dealers Not Described in Paragraph (a)(1) of This Rule

All brokers and dealers that, as of the date the broker-dealer accounting support fee is calculated, (i) have a basis, under the federal securities laws, a Commission rule, or pursuant to other action of the Commission or its staff, not to file audited financial statements or (ii) are not described in paragraph (a)(1) of this Rule.

The Board is also proposing amendments to its funding rules to align the allocation of the broker-dealer accounting support fee with the scope of the proposed program.

Sarbanes-Oxley Section 109 authorizes the Board to assess and collect accounting support fees to fund its operations, including its oversight of auditors of broker-dealers. The Board's current funding rules allocate the broker-dealer accounting support fee among classes of broker-dealers.[114] Under existing PCAOB Rule 7102, *Allocation of Broker-Dealer Accounting Support Fee*, broker-dealers generally are assigned to different classes based on average quarterly tentative net capital and whether they are permitted not to file audited financial statements. The broker-dealer accounting support fee is allocated to the class of broker-dealers with average quarterly tentative net capital greater than $5 million, with individual broker-dealers in that class assessed fees principally based on their average quarterly tentative net capital.

Proposed amendments to PCAOB Rule 7102 would not change the use of average quarterly tentative net capital in allocating the accounting support fee among broker-dealers subject to the fee. Instead, the proposal would exclude exemption report filers from the classification and assessment process used to allocate the broker-dealer accounting support fee among classes.

The proposed program would focus the Board's broker-dealer auditor oversight activities on audits of broker-dealers that file compliance reports. The Board believes it is appropriate for the allocation of the broker-dealer accounting support fee to reflect that same scope. Accordingly, the proposal would amend PCAOB Rule 7102(a) to provide that, for purposes of allocating the broker-dealer accounting support fee, only broker-dealers that are compliance report filers, as defined in proposed PCAOB Rule 4013(a)(2), as of the date the fee is calculated would be classified under Rule 7102(a). This proposed amendment is intended to conform the PCAOB funding rules to the proposed program and to better align the allocation of broker-dealer accounting support fees with the PCAOB activities that those fees support. As discussed in Section IV.C.ii.a, the proposal may result in a greater proportion of broker-dealer accounting support fees being allocated to broker-dealers with audits subject to the permanent inspection program because broker-dealers that file exemption reports generally would not be included in the proposed classification framework.

The Board believes that this approach would promote consistency across its regulatory framework by aligning the allocation of broker-dealer accounting support fees with the scope of the permanent inspection program. Under the proposal, the broker-dealers included in the allocation of the broker-dealer accounting support fee would be limited to compliance report filers, consistent with the proposed scope of the permanent inspection program.

[114] *See* PCAOB Rule 7102(a)-(b).

Questions:

30. Should the Board revise PCAOB Rule 7102 to limit the population of broker-dealers included in the allocation of the broker-dealer accounting support fee to compliance report filers, as defined in proposed PCAOB Rule 4013(a)(2)? Why or why not? If not, what alternative or additional criteria should the Board consider when allocating the broker-dealer accounting support fee, and why?
31. Should the Board determine accounting support fee obligations based on a broker-dealer's status as of a single date, or should the Board consider an alternative approach designed to account for broker-dealers whose status changes during the year? If an alternative approach should be considered, what approach would be preferable and why and how could it be administered?

H. Potential Overlap with the Investment Advisers Act Custody Rule

The Board notes that the proposed scope of the broker-dealer auditor inspection program may have implications beyond broker-dealer audits. For example, Rule 206(4)-2 under the Investment Advisers Act of 1940[115] (the "Advisers Act Custody Rule") requires certain SEC-registered investment advisers to engage a PCAOB-registered independent public accountant that is "subject to regular inspection" by the PCAOB to perform, among other things, annual surprise examinations of advisers that maintain client funds or securities with a qualified custodian that is the adviser or a related person or audits of pooled investment vehicles.[116] Although these engagements are not themselves subject to PCAOB inspection,[117] the Commission staff has previously issued a "no-action" letter stating that the staff would not recommend enforcement action to the Commission against an investment adviser that treats an auditor of a broker-dealer that is registered with the PCAOB as "subject to regular inspection" for purposes of the Advisers Act Custody Rule, pending the adoption of a permanent PCAOB inspection program for broker-dealer auditors.[118]

With the adoption of a permanent program of inspection related to audits of broker-dealers, however, an auditor's status as "subject to regular inspection" may depend on whether that auditor falls within the scope of the program. As a result, the proposed scoping decisions, if adopted by the Board and approved by the Commission, could affect whether

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115 Investment Advisers Act of 1940, 15 U.S.C. § 80b-1 et seq.

116 *See* Advisers Act Custody Rule, 17 C.F.R. §§ 275.206(4)-2(a)(4), (a)(6), (b)(4).

117 The Board's broker-dealer auditor inspection program is directed at audits and attestation engagements performed for broker-dealers, not engagements performed for investment advisers. *See* Sarbanes-Oxley Section 104(a)(2) (authorizing inspection of registered public accounting firms that issue audit reports for brokers and dealers); *see also* PCAOB Rule 4000 (describing the Board's inspection authority and procedures).

118 *See* Letter from Benjamin Tecmire to Robert Van Grover, Esq., Seward & Kissel, SEC No-Action Letter (Dec. 11, 2019) (extending four prior time-limited no-action letters "until the date that a PCAOB-adopted permanent program, having been approved by the Commission, takes effect").

certain accounting firms are able to satisfy regulatory requirements—such as those under the Advisers Act Custody Rule—that depend on PCAOB inspection status.

In addition, the SEC has issued a rulemaking proposal that, among other things, proposes to remove the requirement that independent public accountants must be registered with, and subject to regular inspection by, the PCAOB, for purposes of audit and examination services that are required under the Advisers Act Custody Rule.[119] The Board encourages commenters to review the SEC's proposal to determine whether it might affect their comments on this proposal. The Board is not in a position to interpret the Advisers Act Custody Rule framework, which is administered by the SEC. The Board nevertheless acknowledges the relationship between this proposed rulemaking and that framework and invites comment, which would be publicly available (including to the SEC), on whether any accommodation is appropriate in light of that relationship, including whether accounting firms that would fall outside the scope of the proposed program should be permitted to elect to be subject to regular inspection for limited purposes, or whether any such issue should instead be addressed, if at all, exclusively by the SEC.

Questions:

32. To what extent do registered public accounting firms that audit only exemption report filers (i.e., do not audit issuers or compliance report filers) perform those audits solely for purposes of satisfying the requirements of the Advisers Act Custody Rule?

IV. ECONOMIC ANALYSIS

The Board is mindful of the potential economic impact of changes to its rules. This section provides a discussion of economic considerations related to the proposal. Due to data limitations, some of the economic analysis is qualitative in nature. Where reasonable and feasible, the economic analysis incorporates quantitative information.

A. Economic Baseline

This section establishes the economic baseline against which the impact of the proposal can be considered.[120] Section II of this release describes important components of the baseline, specifically a discussion of the current PCAOB temporary rule and interim inspection program related to audits of broker-dealers. The following discussion presents information regarding: (i) attributes of the broker-dealer audit market, including demographic information; (ii)

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[119] *See* SEC, *Adviser and Regulated Fund Custody Rules; Crypto Custody Rules*, Advisers Act Release No. 7023 (Oct. 1, 2026), at section II.G.3.

[120] The Board adopted the PCAOB temporary rule without fully discussing its economic impact but with a commitment to do so in connection with later proposing a permanent program. *See* Temporary Rule Adopting Release at 3. This proposal addresses that commitment. The Board believes it is appropriate to focus its discussion of economic considerations on the impact of the proposal relative to the current PCAOB temporary rule and interim inspection program.

observations from the interim inspection program; and (iii) evidence on investor losses associated with broker-dealers.

i. Attributes of the Broker-Dealer Audit Market

Based on fiscal year 2025 FOCUS Report filings, 3,141 broker-dealers were identified, of which 3,131 had an auditor on file.[121] A total of 206 audit firms issued audit and attestation reports on those broker-dealers' financial statements and either compliance or exemption reports.

a. Concentration in the Broker-Dealer Industry

Exhibit 1 illustrates concentration in the broker-dealer industry.[122] It shows that relatively few broker-dealers account for a large proportion of the overall market, as measured by different metrics. For example, the top one percent of broker-dealers, as measured by net capital requirement, account for 96 percent of the aggregate net capital requirement for all broker-dealers. Net capital requirements are mandated by the Broker-Dealer Net Capital Rule to ensure that broker-dealers have at all times enough liquid assets to promptly satisfy the claims of customers if they fail. Net capital requirements are not directly tied to realized investor losses, but they reflect a preventive measure meant to limit future investor losses. As shown in **Exhibit 1**, broker-dealers reported approximately $321 billion in net capital, far exceeding the aggregate required amount of approximately $53 billion.

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[121] Pursuant to Exchange Act Rule 17a-5, broker-dealers that are members of FINRA are required to file FOCUS Reports with FINRA that provide information on their financial and operational status. The latest complete data on FOCUS Reports available to the Board is as of fiscal year 2025. While the data includes 3,141 broker-dealers, 10 claim an exemption from filing audited financial statements and therefore do not have an auditor on file.

The broker-dealer population used in this analysis may differ from the population reported in Knyazeva and Bresler (2025) because of differences in sample construction, data sources, and data-cleaning criteria. Knyazeva and Bresler (2025) report approximately 3,340 broker-dealers in 2024 using FOCUS Report filings and describe several exclusions and data-cleaning steps. The PCAOB analysis is based on a fiscal year-end 2025 broker-dealer profile that excludes broker-dealers that had terminated, withdrawn, been expelled, cancelled, or had termination requests with FINRA or the SEC. Differences also may reflect whether broker-dealers registered with designated examining authorities other than FINRA are included. *See* Diana Knyazeva and Daniel Bresler, *Broker-Dealer Activity in the United States*, SEC Division of Economic and Risk Analysis White Paper (June 2025).

[122] The analysis is based on broker-dealers' own financial statement data rather than customer assets held in custody. Staff considered whether to include a measure of customer assets based on Item 3.D of Commission Form Custody, "Securities and Cash Carried for the Accounts of Customers," but determined that the reported data would support only a crude lower-bound estimate. For each of 19 security types, a broker-dealer selects one of six broad market-value ranges. Using the minimum of each selected range, a broker-dealer with a calculated minimum of zero could carry nearly $950 million in customer assets, while a broker-dealer with a calculated minimum of $19 billion could carry nearly $95 billion. Accordingly, staff did not use Commission Form Custody data and instead relied on broker-dealers' own financial statement data.

Exhibit 1. Concentration in the Broker-Dealer Industry

	Total (in millions)	Top 1% BDs	Top 5% BDs	Top 10% BDs
Net Capital Requirement	$52,929	96%	99%	100%
Net Capital	$320,889	75%	94%	97%
Total Assets	$7,369,170	78%	99%	100%
Total Revenue	$748,920	66%	91%	96%

Source: PCAOB Compiled Data for Fiscal Year End 2025.

Note: Reported values reflect rounding.

As compliance report filers tend to have higher net capital and total assets, this concentration is also evident in a comparison between broker-dealers that file compliance reports and those that file exemption reports. **Exhibit 2** shows that, although only five percent of broker-dealers file compliance reports, they represent 99 percent of the aggregate net capital requirement and 81 percent of the aggregate total assets.

Exhibit 2. Compliance Report Filers vs. Exemption Report Filers

	Total	Compliance Report Filers	Exemption Report Filers
Number of Broker-Dealers[1]	3,141	5%	95%
Number of Audit Firms[2]	206	14%	99%
Net Capital Requirement (in millions)	$52,929	99%	1%
Net Capital (in millions)	$320,889	81%	19%
Total Assets (in millions)	$7,369,170	81%	19%
Total Revenue (in millions)	$748,920	68%	32%

Source: PCAOB Compiled Data for Fiscal Year End 2025.

Notes:

[1] The 2025 fiscal year end data includes 3,141 broker-dealers. Of these, 155 filed compliance reports. The remaining broker-dealers are treated as exemption report filers. Ten of the 3,141 broker-dealers claimed an exemption from filing audited financial statements and did not have an auditor on file.

[2] The percentages include firms that audit both broker-dealers that file compliance reports and broker-dealers that file exemption reports. More specifically, out of the 206 audit firms, two firms have only compliance report filing clients, 177 firms have only exemption report filing clients, and 27 have both.

Although exemption report filers account for a small share of the aggregate net capital requirement and total assets, individual exemption report filers vary in size and potential risk profile. For example, among exemption report filers, the net capital requirement was approximately $5,000 at the 10th percentile, $49,668 at the median, and $295,864 at the 90th percentile. Despite this variation, most exemption report filers remain relatively small by this measure, and the category as a whole remains substantially smaller than compliance report filers in the aggregate measures shown in **Exhibit 2**.

The audit market for broker-dealers is also highly concentrated. Panel (a) of **Exhibit 3** shows that three percent of broker-dealer auditors each have more than 100 broker-dealer clients, and their clients account for 99 percent of the aggregate net capital requirement for all broker-dealers. In contrast, roughly 29 percent of broker-dealer auditors each have only one broker-dealer client, and their clients represent negligible shares of the aggregate net capital and total assets of all broker-dealers.[123] Panel (b) of **Exhibit 3** shows that 14 percent of broker-dealer auditors (29 firms) audit at least one compliance report filer, and the broker-dealers audited by those firms account for 100 percent, after rounding, of the aggregate net capital requirement and aggregate total assets and 98 percent of aggregate net capital. Two percent of broker-dealer auditors (four firms) audit more than 10 compliance report filers, and the broker-dealers audited by those firms account for 99 percent of the aggregate net capital requirement.

[123] Auditors that audit more than one broker-dealer represent 71 percent of the total number of broker-dealer auditors. Hence, auditors that have only one broker-dealer client account for (100−71) percent = 29 percent.

Exhibit 3. Concentration in the Broker-Dealer Audit Market

(a) All Broker-Dealer Auditors

	Total	Auditors of More Than 100 BDs	Auditors of More Than 20 BDs	Auditors of More Than 10 BDs	Auditors of More Than 5 BDs	Auditors of More Than 1 BD
Number of Audit Firms	206	6 (3%)	43 (21%)	57 (28%)	88 (43%)	147 (71%)
Number of Broker-Dealers	3,141	808 (26%)	2,438 (78%)	2,637 (84%)	2,883 (92%)	3,072 (98%)
Net Capital Requirement (in millions)	$52,929	99%	100%	100%	100%	100%
Net Capital (in millions)	$320,889	93%	99%	99%	100%	100%
Total Assets (in millions)	$7,369,170	94%	100%	100%	100%	100%
Total Revenue (in millions)	$748,920	93%	98%	99%	99%	100%

(b) Auditors of Compliance Report Filers

	Total	Auditors of More Than 20 Compliance Report Filers	Auditors of More Than 10 Compliance Report Filers	Auditors of More Than 5 Compliance Report Filers	Auditors of More Than 1 Compliance Report Filer	Auditors of More Than 0 Compliance Report Filer
Number of Audit Firms	206	3 (1%)	4 (2%)	9 (4%)	15 (7%)	29 (14%)
Number of Broker-Dealers	3,141	394 (13%)	522 (17%)	722 (23%)	996 (32%)	1,432 (46%)
Net Capital Requirement (in millions)	$52,929	75%	99%	99%	100%	100%
Net Capital (in millions)	$320,889	73%	93%	95%	98%	98%
Total Assets (in millions)	$7,369,170	78%	94%	95%	100%	100%
Total Revenue (in millions)	$748,920	72%	93%	94%	97%	97%

Source: PCAOB Compiled Data for Fiscal Year End 2025.

Note: The broker-dealer counts and financial measures reported for each auditor group includes all broker-dealer clients of the auditors in that group. The total column includes 10 broker-dealers that claimed an exemption from filing audited financial statements and did not have an auditor on file. Those broker-dealers are not included in any auditor-group column. Reported values reflect rounding.

b. Client Profiles of Broker-Dealer Auditors

Under the baseline, all 206 broker-dealer auditors represented in **Exhibit 2** are within the scope of the interim inspection program and eligible to be selected for inspection. As shown in **Exhibit 4**, based on 2025 data, most auditors of broker-dealers would not be subject to inspection under the proposal. Specifically, of the 206 broker-dealer auditors, four firms have more than 10 compliance report filer clients and would be inspected annually under the

proposal, consistent with their average inspection frequency under the interim inspection program, while 25 firms have at least one but no more than 10 compliance report filer clients and would be inspected triennially, compared to an average interim inspection program frequency of approximately once every four years. The four firms that would be inspected annually collectively audit 89 compliance report filers, and the 25 firms that would be inspected at least triennially collectively audit 66 compliance report filers.[124] The remaining 177 firms, which collectively audit 1,699 exemption report filers and no compliance report filers, were inspected on average approximately once every nine years under the interim inspection program and would be excluded from the proposed permanent inspection program.[125]

Exhibit 4. Broker-Dealer Auditors by Proposed Inspection Frequency

	Number of Auditors	Average Historical Inspection Frequency	Number of Compliance Report Filers	Number of Exemption Report Filers	Total Number of Broker-Dealers
Auditors to Be Inspected Annually	4	Annual	89	433	522
Auditors to Be Inspected Triennially	25	Every 4 Years	66	844	910
Auditors with No BD Engagements to Be Inspected	177	Every 9 Years	0	1,699	1,699
Total	**206**	**-**	**155**	**2,976**	**3,131**

Source: PCAOB Compiled Data for Fiscal Year End 2025.

[124] Based on 2025 data, six firms that are inspected annually under the issuer inspection program have one to 10 compliance report filer clients and therefore would be inspected at least triennially under the permanent broker-dealer auditor inspection program. Accordingly, broker-dealer engagements at those firms would be subject to selection under the permanent broker-dealer auditor inspection program at least once every three years, even if the firm is inspected annually for issuer audit work.

[125] This average historical inspection frequency does not imply that all firms in this group were inspected at the same interval. The interim inspection program has included a risk-based component in inspection selections, under which firms with higher risk profiles have been selected for inspection more frequently.

Note: The total number of broker-dealers presented in this exhibit excludes the 10 broker-dealers that claimed an exemption from filing audited financial statements and did not have an auditor on file, because this exhibit presents broker-dealers by their auditors' proposed inspection frequency.

c. Accounting Support Fees Paid by Broker-Dealers

Under current PCAOB funding rules, broker-dealers are assessed accounting support fees if they have average quarterly tentative net capital of more than $5 million and must file annual audited financial statements with the Commission.[126] Based on fiscal year 2024 FOCUS Report filings, there were 158 compliance report filers, of which 133 were assessed accounting support fees in 2025 totaling approximately $23.5 million, or approximately $176,495 per filer on average.[127] By comparison, there were 3,043 exemption report filers, of which 610 were assessed accounting support fees totaling approximately $5.4 million, or approximately $8,776 per filer on average.[128]

ii. Observations from the Interim Broker-Dealer Auditor Inspection Program

Since the inception of the interim broker-dealer auditor inspection program in 2011, the PCAOB has inspected 445 firms that audit broker-dealers and reviewed portions of 1,438 financial statement audits, 301 examination engagements, and 813 review engagements.[129]

Exhibit 5 presents the number of broker-dealer financial statement audits reviewed each year under the interim inspection program from 2011 through 2025. Starting in 2015, after the SEC amended Exchange Act Rule 17a-5, the exhibit provides a breakdown of reviewed broker-dealer audits by whether the broker-dealer filed compliance reports or exemption reports.

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126 PCAOB Rule 7102.

127 The classification of broker-dealers assessed accounting support fees in 2025 is based on data from fiscal year 2024 FOCUS Report filings, which were used to determine the 2025 billing population. Of the 746 broker-dealers assessed accounting support fees in 2025, the filing status of three could not be determined from those filings. Two did not file a fiscal year 2024 FOCUS Report, and the filing for the third was unavailable.

128 Average amounts per filer are calculated using unrounded accounting support fee totals and therefore may differ from averages calculated using the rounded totals presented above.

129 The PCAOB did not review every aspect of the selected audit engagements. Rather, it focused on portions. Generally, the PCAOB selected financial statement and regulatory areas that it considered to be of greater complexity, significance, or potential for risk of material misstatement to the broker-dealer's financial statements and supporting schedules. Financial statement areas reviewed included revenue and related party relationships and transactions. In some cases, areas such as expenses and related accruals were selected to incorporate an element of unpredictability. The regulatory areas reviewed included the Broker-Dealer Net Capital Rule and the Broker-Dealer Customer Protection Rule. The PCAOB generally focused the review of the selected attestation engagements on assertions made in broker-dealer compliance reports or exemption reports involving the protection of customer funds and securities. *Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers*, PCAOB Release No. 2026-003 (June 11, 2026), at 10.

Exhibit 5 shows that the rate of broker-dealer audits reviewed remained relatively low throughout the period, reaching 2.9 percent by 2015 and remaining near 3 percent thereafter. Since 2015, audits of exemption report filers have accounted for the majority of broker-dealer engagements reviewed by the PCAOB. Even so, the exemption report filers have been reviewed at a lower rate relative to their prevalence in the overall broker-dealer population. For example, in 2025, the PCAOB reviewed audits of approximately 16 percent of compliance report filers, compared with approximately 3 percent of exemption report filers.

Exhibit 5. Number of Broker-Dealer Financial Statement Audits Reviewed

Inspection Year	Number of Broker-Dealers in Prior Year	Broker-Dealer Audits Selected for Review	Selection Rate	Compliance Report Filer Audits Reviewed[4] (% of Compliance Report Filers)	Exemption Report Filer Audits Reviewed (% of Exemption Report Filers)
2011[1]	4,577	23	0.5%	-	-
2012[1]	4,455	60	1.3%	-	-
2013[1]	4,227	90	2.1%	-	-
2014[1]	4,007	106	2.6%	-	-
2015[2][3]	4,075	120	2.9%	30	88
2016[3]	3,958	115	2.9%	20	95
2017[2]	3,841	116	3.0%	27 (17%)	87 (2%)
2018	3,714	105	2.8%	26 (16%)	79 (2%)
2019	3,596	106	2.9%	30 (20%)	76 (2%)
2020	3,498	105	3.0%	21 (13%)	84 (3%)
2021	3,408	92	2.7%	34 (21%)	58 (2%)
2022	3,364	92	2.7%	35 (23%)	57 (2%)
2023	3,367	103	3.1%	31 (20%)	72 (2%)

Inspection Year	Number of Broker-Dealers in Prior Year	Broker-Dealer Audits Selected for Review	Selection Rate	Compliance Report Filer Audits Reviewed[4] (% of Compliance Report Filers)	Exemption Report Filer Audits Reviewed (% of Exemption Report Filers)
2024	3,295	102	3.1%	30 (19%)	72 (2%)
2025	3,211	103	3.2%	25 (16%)	78 (3%)

Source: PCAOB Compiled Data.

Notes:

[1] Registered broker-dealers were not required to file compliance reports or exemption reports prior to 2014. In 2013, the SEC amended its broker-dealer reporting rule, Exchange Act Rule 17a-5, and added a new annual requirement that broker-dealers file with the SEC either a compliance report or exemption report addressing the broker-dealer's compliance with (or exemption from) certain broker-dealer financial responsibility rules. *See* 2013 Broker-Dealer Reports Adopting Release.

[2] Two broker-dealers did not file a compliance or exemption report.

[3] For inspection years 2015 and 2016, data on the numbers of compliance report filers and exemption report filers is unavailable.

[4] For purposes of this analysis, broker-dealers that filed both compliance and exemption reports are classified as compliance report filers.

PCAOB inspections have continued to identify deficiencies in broker-dealer audit and attestation engagements throughout the life of the interim inspection program, although trends vary by engagement type. **Exhibits 6** and **7** compare the rates of inspection deficiency across firms that provide assurance for different types of broker-dealers, without regard to the nature of the deficiencies or their potential implications for customer-asset protection. **Exhibit 6** focuses on deficiencies in financial statement audits. **Exhibit 7** focuses on deficiencies in the attestation engagements for compliance reports and exemption reports.

Exhibit 6 shows that firms that audited only exemption report filers had higher percentages of audits with deficiencies, without regard to the nature of those deficiencies or their potential implications for customer-asset protection, when compared to firms that audited compliance report filers. For example, in inspection year 2025, 81 percent of audits performed by firms that audited only exemption report filers had deficiencies, compared with 51 percent of audits performed by firms that audited compliance report filers. Similar patterns are observed in other inspection years as well.

Exhibit 6. Percentage of Financial Statement Audits with Deficiencies (2015-2025)

Inspection Year	Firms that audited broker-dealers that filed compliance reports	Firms that only audited broker-dealers that filed exemption reports
2015	64%	95%
2016	66%	97%
2017	66%	85%
2018	64%	91%
2019	57%	88%
2020	49%	72%
2021	45%	57%
2022	48%	75%
2023	59%	84%
2024	65%	91%
2025	51%	81%

Source: Annual Reports on the Interim Inspection Program Related to Audits of Brokers and Dealers

Exhibit 7 compares deficiency rates of examinations of compliance reports and reviews of exemption reports across firms that provide assurance for different types of broker-dealer filers. Because examination engagements are performed only for compliance report filers, firms that audited only exemption report filers do not have examination engagements in this comparison. For review engagements, which are performed for exemption report filers, firms that audited only exemption report filers have higher percentages of deficiencies than firms that also audited compliance report filers. For example, for inspection year 2025, the percentage of reviews with deficiencies is 49 percent for firms that audited only exemption report filers and 26 percent for firms that also audited compliance report filers. The same pattern is observed in inspection years 2015-2024.

Exhibit 7. Percentage of Examinations/Reviews with Deficiencies (2015-2025)

	Percentage of Examinations with Deficiencies		Percentage of Reviews with Deficiencies	
Inspection Year	Firms that audited broker-dealers that filed compliance reports	Firms that only audited broker-dealers that filed exemption reports	Firms that audited broker-dealers that filed compliance reports	Firms that only audited broker-dealers that filed exemption reports
2015	77%	N/A	26%	63%
2016	70%	N/A	25%	54%
2017	70%	N/A	17%	52%
2018	75%	N/A	41%	64%
2019	69%	N/A	30%	64%
2020	67%	N/A	14%	28%
2021	64%	N/A	17%	39%
2022	50%	N/A	32%	47%
2023	66%	N/A	19%	54%
2024	59%	N/A	24%	54%
2025	40%	N/A	26%	49%

Source: Annual Reports on the Interim Inspection Program Related to Audits of Brokers and Dealers

Both **Exhibits 6** and **7** indicate that firms that audited only exemption report filers had higher deficiency rates than firms that audited at least one compliance report filer. However, the firm-level comparisons do not account for the nature of inspection deficiencies identified, and therefore they do not, by themselves, reveal their relationship to risks to broker-dealer customers, including the risk of loss or misuse of customers' assets. The relevant question is not only how often deficiencies occurred, but what kind of deficiencies were identified and how closely connected they are to customer cash or securities. A higher deficiency rate therefore does not suggest, on its own, higher risk to customers, including risk to customer assets.

Moreover, because the engagements reviewed were not randomly selected and the underlying populations of compliance report filers and exemption report filers may differ systematically in relevant characteristics, the reported differences may reflect both inspection selection and variation in the characteristics of the underlying populations.

For these reasons, staff next examined deficiencies directly at the engagement level. **Exhibit 8** presents engagement-level deficiency rates for financial statement audits, examinations of compliance reports, and reviews of exemption reports. **Exhibits 9** and **10** describe the specific categories of deficiencies identified during inspections. Together, these exhibits provide context for determining if the deficiencies were closely tied to customer asset protection or instead related to audit documentation, financial reporting requirements, or review engagement procedures.

Exhibit 8 provides engagement-level deficiencies for the same firms presented in **Exhibits 6** and **7**. While **Exhibits 6** and **7** show that firms that audited only exemption report filers had higher deficiency rates, **Exhibit 8** shows that, at the engagement level, examination engagements for compliance report filers generally had higher deficiency rates than review engagements for exemption report filers.

Exhibit 8: Summary of Inspection Deficiencies (2015-2025)

	Compliance Report Filers		Exemption Report Filers	
Inspection Year	Percentage of Audits with Deficiencies	Percentage of Examinations with Deficiencies	Percentage of Audits with Deficiencies	Percentage of Reviews with Deficiencies
2015	83%	77%	76%	49%
2016	75%	70%	83%	43%
2017	85%	70%	72%	40%
2018	65%	75%	80%	54%
2019	63%	69%	74%	51%
2020	62%	67%	61%	23%
2021	59%	64%	43%	28%
2022	51%	50%	61%	40%
2023	55%	66%	76%	40%
2024	67%	59%	81%	42%
2025	52%	40%	71%	41%

Source: PCAOB Compiled Data

The deficiency rate data in **Exhibit 8** does not distinguish among deficiencies based on their nature or risk to customers. Because compliance report filers, unlike exemption report filers, generally are carrying or clearing broker-dealers that receive, handle, or hold customer cash or securities, the types of deficiencies would be expected to differ between these two types of broker-dealers. In particular, deficiencies in examination engagements for compliance report filers would be expected to occur in areas reflecting risk to customer assets much more frequently than deficiencies in review engagements for exemption report filers, which generally do not hold customer cash or securities. **Exhibits 9** and **10** present deficiencies in audit and attestation areas by frequency for these two types of broker-dealers. Consistent with the expectations, and as described in more detail in the discussion that follows, **Exhibits 9** and **10** indeed show that the deficiencies identified for compliance report filers frequently involved

areas associated with the Broker-Dealer Customer Protection Rule framework, and thus reflected risk to customer assets. By contrast, the more frequent deficiencies identified for exemption report filers generally involved engagement quality review procedures, evaluation of audit results, audit documentation, reporting requirements, and review engagement procedures. While those deficiencies related to the quality of the audit and review, they generally did not relate to customer cash or securities or indicate that broker-dealers had improperly claimed exemption status. Detailed discussions of **Exhibits 9** and **10** follow.

Exhibit 9 presents the 10 audit areas most frequently associated with deficiencies identified in PCAOB reviews of audits of broker-dealer annual financial reports from 2015 through 2025, separately for audits of compliance report filers and exemption report filers. The percentages in the exhibit represent the share of all reviewed audits in which inspectors identified at least one deficiency in the specified audit area.[130]

For both categories of broker-dealers, revenue is the audit area most frequently associated with deficiencies. Unlike in an issuer audit context, where investors are primary users of audited annual financial statements and may use revenue to assess an issuer's operating performance and financial condition, for broker-dealers the users of the annual financial reports are primarily the SEC, the broker-dealer's DEA, including FINRA, and SIPC. While deficiencies in audits of revenue assertions may affect those regulators' understanding of a broker-dealer's operating results and financial condition, revenue assertions are generally not directly tied to the safeguarding of customer assets.

For audits of compliance report filers, the audit area with the second highest frequency of deficiencies is the audit of the customer reserve and possession or control of customer securities schedules (36 percent) that demonstrate compliance with the Broker-Dealer Customer Protection Rule. In more than a third of all reviewed audits of compliance report filers the PCAOB identified matters involving noncompliance with PCAOB standards in this area. These schedules are designed to demonstrate compliance with the Broker-Dealer Customer Protection Rule, and so are directly related to customer protection because the rule addresses the safeguarding of customer securities and cash. In addition, in 13 percent of the audits reviewed the PCAOB identified deficiencies related to net capital, which is a safeguard to address customer claims in the event the broker-dealer were to fail.[131]

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[130] Because the scope of individual inspections varies, these percentages are calculated using all reviewed audits as the denominator, including audits for which inspectors did not review the specified audit area. Accordingly, the percentages should not be interpreted as deficiency rates among only those engagements in which the relevant audit area was reviewed.

[131] Net capital requirements are mandated by the Broker-Dealer Net Capital Rule to ensure that broker-dealers have at all times enough liquid assets to promptly satisfy the claims of customers if they fail. For compliance report filers, which maintain custody of customer assets, net capital computations may involve multiple accounts and more complex provisions of the Broker-Dealer Net Capital Rule compared to those that apply to exemption report filers.

In contrast, the deficiencies most frequently identified in the audits of exemption report filers generally did not involve areas directly associated with the safeguarding of customer assets. Rather, in addition to the audit area related to revenue as discussed above, the deficiencies generally related to whether the auditor adequately performed an engagement quality review (EQR) (45 percent), properly evaluated audit results (22 percent), appropriately tested whether reported net capital amounts were in compliance with the Broker-Dealer Net Capital Rule (18 percent), sufficiently documented the work performed (18 percent), or complied with communication requirements (13 percent). While such audit deficiencies may indicate a failure to sufficiently address audit risks related to the broker-dealer's financial statements, most are not directly connected to the safeguarding of customer assets.

Exhibit 9. Top Audit Areas with Deficiencies (2015-2025)

	Compliance Report Filers		Exemption Report Filers	
Rank	Audit Area	Percentage of Audits	Audit Area	Percentage of Audits
1	**Revenue**	37%	**Revenue**	54%
2	**Broker-Dealer Customer Protection Rule**	36%	**EQR**	45%
3	**EQR**	26%	**Evaluating audit results**	22%
4	**Net capital**	13%	**Net capital**	18%
5	**Receivable/Payable**	11%	**Audit documentation**	18%
6	**Audit documentation**	11%	**Related party transactions**	15%
7	**Related party transactions**	10%	**Reporting - Required communications**	13%
8	**Evaluating audit results**	9%	**Audit reporting**	12%
9	**Reporting - Required communications**	8%	**Risk assessment**	12%
10	**Risk assessment**	7%	**Journal entry testing**	7%

Source: PCAOB Compiled Data

With respect to attestation engagements, **Exhibit 10** presents the top attestation areas with deficiencies from 2015 through 2025.[132] The following discussion focuses on the specific sub-areas in which attestation deficiencies were identified.

For compliance report filers, the most frequent examination procedure deficiencies included testing of ICOC and tests for compliance, which are closely related to the auditor's examination of the broker-dealer's compliance with requirements designed to safeguard customer cash and securities, including requirements concerning possession or control of

[132] The 2025 deficiency rates are notably different from the historical averages reflected in Exhibit 10. The analysis focuses on long-term trends rather than a single year's results.

customer securities and the customer reserve computation. Deficiencies in an auditor's examination of ICOC may be especially concerning since compliance report filers must make specific assertions regarding the effectiveness of ICOC and describe any material weaknesses. The SEC and a broker-dealer's DEA, including FINRA, may rely on these assertions as one means of identifying potential compliance issues.[133]

For exemption report filers, no specific review procedure deficiency stands out as particularly frequent, and the most frequently observed review procedure deficiencies involved the auditor's reporting on the review engagement (6 percent), inquiries performed in connection with the exemption report (4 percent), and multiple or incorrect exemptions identified in connection with the exemption report (4 percent).[134] These findings generally reflect deficiencies in the auditor's execution of review procedures or understanding of the exemption conditions applicable to the broker-dealer, rather than findings that a broker-dealer improperly claimed an exemption from the Broker-Dealer Customer Protection Rule. PCAOB inspections from 2015 through 2025 identified no instances in which the PCAOB found that a broker-dealer filed an exemption report when it should have filed a compliance report. Nevertheless, an auditor's failure to understand and report exemption conditions could be significant if a broker-dealer's failure to qualify for an exemption from the Broker-Dealer Customer Protection Rule went undetected.

[133] 2013 Broker-Dealer Reports Adopting Release at 228 (discussing the importance of ICOC reporting for SEC/DEA oversight).

[134] The multiple or incorrect exemption findings generally involve broker-dealers that claimed an exemption that did not apply to their business activities, such as instances in which a broker-dealer inappropriately claimed: (i) a specific exemption for brokerage services not transacted with a carrying or clearing broker-dealer; or (ii) multiple exemptions that included an inappropriate exemption.

Exhibit 10. Top Attestation Areas with Deficiencies (2015-2025)

Compliance Report Filers			Exemption Report Filers		
Rank	**Examination Area**	**Percentage of Examinations[1]**	**Rank**	**Review Area**	**Percentage of Reviews[1]**
1	**Examination procedures**	**62%**	**1**	**Review procedures**	**37%**
	Testing of ICOC (AT 1 .11-.20)	29%		Reporting on review engagement (AT 2 .16)	6%
	Tests for compliance (AT 1 .21-.24)	10%		Inquiries (AT 2 .10)	4%
	Planning (AT 1 .06-.10)	9%		Multiple/Incorrect exemptions (AT 2 .10)	4%
	Reporting on examination engagement (AT 1 .36)	5%		Representation letter (AT 2 .13)	2%
	Evaluation of results (AT 1 .25-.26)	4%		Other 10(g)/10(h) matters (AT 2 .10)	2%
	Representation letter (AT 1 .32)	4%		Understanding exemption conditions (AT 2 .05)	1%
	Examination report date (AT 1 .38)	4%		Dating of review report (AT 2 .18)	1%
	Evaluation of results (AT 1 .27)	1%			
2	**EQR**	**17%**	**2**	**EQR**	**23%**
3	**Documentation**	**6%**	**3**	**Documentation**	**10%**

Note: [1] An examination or review procedure deficiency may be assigned to no sub-area or more than one sub-area. Accordingly, the sum of the sub-area percentages may be either less than or greater than the overall percentage. Only audit or attestation areas in which deficiencies were identified in at least one percent of the relevant examinations or reviews, after rounding, are presented in the exhibit.

Overall, the interim inspection program data shows that firms auditing only exemption report filers had relatively high deficiency rates. But those rates should be read together with the nature of the deficiencies identified. The deficiencies for exemption report filers generally involved engagement quality review procedures, evaluation of audit results, audit documentation, reporting requirements, and review engagement procedures. These deficiencies are not directly tied to safeguarding customer cash and securities and therefore do not indicate a higher observed risk of customer-asset loss. By contrast, deficiencies for compliance report filers more often involved areas tied to the Broker-Dealer Customer Protection Rule framework, which is directly associated with a risk of customer-asset loss.

In addition to inspection findings, staff analyzed PCAOB enforcement actions issued during the interim inspection program and identified 52 enforcement orders related to broker-dealer audit and attestation engagements and conduct associated with those engagements.[135] These orders involved 47 registered public accounting firms and 32 associated persons. An examination of the focus of violative conduct in the 52 enforcement orders indicates that the most frequently cited violations were related to independence (33 cases), engagement quality review (eight cases), and AT 1 (seven cases). The AT 1 violations involved broker-dealers that carried customer assets and reflected materially deficient examination procedures. Notably, regarding exemption report filers, only three cases cited AT 2 violations as the main violation. A closer review of those three enforcement orders did not indicate that the broker-dealers had improperly claimed an exemption from compliance and reporting obligations applicable to compliance report filers and the sanctioned auditor failed to detect it.

iii. Evidence on Investor Losses

Broker-dealers may expose investors to loss through a range of channels, only some of which are likely to be influenced by PCAOB inspections of broker-dealer auditors.[136] For example, a study finds that the most common types of broker-dealer misconduct concern

[135] PCAOB enforcement orders are *available at* https://pcaobus.org/oversight/enforcement/enforcement-actions.

[136] Several studies using FINRA's BrokerCheck data provide evidence of broker-dealer misconduct, including repeat misconduct. *See, e.g.*, Craig McCann, Chuan Qin, and Mike Yan, *How Widespread and Predictable is Stock Broker Misconduct?*, 26 The Journal of Investing 6 (2017) (reconciling divergent estimates of broker misconduct in Hammad Qureshi and Jonathan Sokobin [2015] and in Mark Egan, Gregor Matvos, and Amit Seru [2019]); Hammad Qureshi and Jonathan Sokobin, *Do Investors Have Valuable Information About Brokers?*, FINRA Office of the Chief Economist Working Paper, August 2015; Mark Egan, Gregor Matvos, and Amit Seru, *The Market for Financial Adviser Misconduct*, 127 Journal of Political Economy 233 (2019).

unsuitability, misrepresentation, and unauthorized activity, types of harm that are not directly related to financial statements or the SEC's broker-dealer financial responsibility rules.[137]

Data on net capital requirements, SIPA liquidations, and FINRA-ordered restitutions can provide insights into different dimensions of the risk of customer harm posed by broker-dealers. While these metrics serve as indicators of potential or realized investor harm, they also reflect the operation of safeguards, outside the PCAOB inspections, designed to prevent, limit, or remediate such harm.[138] Net capital requirements are discussed above (see **Exhibit 1**); this section focuses on SIPA liquidations and FINRA-ordered restitutions.

SIPA liquidation data provides useful, but limited, information about customer harm when a SIPC member broker-dealer fails financially and customer cash or securities are missing or otherwise unavailable to satisfy eligible customer claims. In a SIPA liquidation, a trustee, under SIPC oversight, seeks to return customer securities and cash, including by transferring customer accounts to other institutions where possible. If customer property is insufficient to satisfy eligible customer claims, SIPC may advance funds, subject to statutory limits, to help satisfy those claims and to pay certain administrative expenses. The net advances from the SIPC Fund, after recoveries, or SIPC losses, represent the net cost to SIPC from covered broker-dealer failures. SIPC losses are not the same as total customer losses and do not capture all forms of investor loss associated with broker-dealer misconduct. SIPC generally is not involved where losses arise from misconduct by a broker-dealer that remains in business, and SIPC protection does not cover all losses associated with failed broker-dealers.

Since 1995 there have been a total of 84 broker-dealer liquidations involving SIPC losses. Measured in constant dollars, historical losses are dominated by Madoff Securities, which

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[137] *See* Egan, et al., *The Market for Financial Adviser Misconduct* 249. Other types of misconduct include omission of key facts, fee/commission related misconduct, fraud, fiduciary duty, negligence, risky investments, and churning/excessive trading. "Unsuitable" refers to potential violations of FINRA Rule 2111, which requires, in part, that a broker-dealer or associated person "have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the [firm] or associated person to ascertain the customer's investment profile." FINRA Rule 2111(a).

[138] Specifically, an investor who suffers financial harm from broker-dealer misconduct may experience customer harm even where losses are subsequently reimbursed through SIPC advances, FINRA-ordered restitution, litigation recoveries, or other compensation mechanisms. Such harm may include the time value of money, foregone investment opportunities, liquidity constraints, and the costs and burdens associated with pursuing recovery. To the extent losses are not fully recovered, because they exceed SIPC coverage limits, are not awarded in arbitration or litigation, or otherwise prove unrecoverable, the unreimbursed amounts constitute additional customer harm.

The liquidation of Bernard L. Madoff Investment Securities LLC ("Madoff Securities") illustrates this point. As of February 27, 2026, the SIPA Trustee had distributed nearly $15.4 billion to customers, representing approximately 73 percent of allowed claims through seventeen distributions, yet some claims remained unsatisfied. Even where substantial recoveries ultimately occur, customers may be deprived of access to their funds for many years before receiving compensation.

represents almost 90 percent of losses since 1995.[139] Of the 84 liquidations, 71 were introducing broker-dealers, which generally correspond to exemption report filers, and 13 (including Madoff Securities) were clearing broker-dealers, which generally correspond to compliance report filers.[140]

The larger number of liquidations of introducing broker-dealers is consistent with their much larger share of the overall number of broker-dealers. While there were fewer liquidations of clearing broker-dealers, their losses were larger on average. Measured in inflation-adjusted 2025 dollars, SIPC losses averaged $389 million for clearing broker-dealers when Madoff Securities is included and $13 million when it is excluded. In comparison, SIPC losses averaged $7 million for introducing broker-dealers.[141]

Of the 84 liquidations since 1995, only two occurred after 2013, when the SEC amended Exchange Act Rule 17a-5 to establish the current regulatory approach. The two liquidations after 2013 were both introducing broker-dealers and caused total SIPC losses of $3 million (mainly SIPC administrative expenses). The limited number of SIPC cases after 2013 suggests that SIPC losses associated with broker-dealer failures have remained relatively low since the current regulatory approach became effective.

Another source of information about investor losses associated with broker-dealers is the FINRA-ordered restitution. Upon determination of securities rules violations, FINRA can order broker-dealers to make restitutions to investors based on the quantifiable, actual amounts of the losses the investors sustained. Similar to the SIPC losses, FINRA-ordered restitution compensates investors for losses caused by various types of broker-dealer misconduct that may not necessarily be directly related to financial reporting or the SEC's broker-dealer financial responsibility rules.[142] For example, the study by Egan et al. (2019) discussed above identifies unsuitability, misrepresentations, and unauthorized activity among the most common forms of broker-dealer misconduct, types of conduct that generally fall outside the primary focus of broker-dealer audits. **Exhibit 11** shows that from 2010 through 2025, FINRA ordered approximately $492.6 million in restitution to harmed investors.

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139 Staff calculation based on data provided by SIPC.

140 Although available data indicates Madoff Securities was a clearing broker-dealer, it did not file a compliance report because the compliance report requirement under Exchange Act Rule 17a-5 had not yet been adopted.

141 Based on data provided by SIPC, the most commonly reported cause of failure among introducing broker-dealers was unauthorized trading, either alone or with other misconduct.

142 For example, the 2015 FINRA-ordered restitution is reflective of supervisory failures related to sales of Puerto Rican municipal bonds and closed-end funds, failures to provide applicable sales-charge discounts, failures to provide applicable breakpoint discounts, and suitability violations, among other things. FINRA, *FINRA 2015 Year in Review and Annual Financial Report* 3-4.

Exhibit 11. Restitution to Harmed Investors Ordered by FINRA (2010-2025)

Year	2010	2011	2012	2013	2014	2015	2016	2017
Restitution (in millions)	$6.2	$19.4	$34.0	$9.0	$32.3	$96.6	$27.9	$66.8
Year	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Restitution (in millions)	$25.5	$27.9	$25.2	$47.0	$26.2	$7.5	$24.0	$17.1

Source: FINRA Annual Financial Reports

Questions:

33. Is the baseline appropriately described? If not, how could the analysis be improved?
34. Are there additional studies or data that would inform the baseline? If so, please provide such studies or data.

B. Need for a Permanent Inspection Program

As discussed in Section II of this release, the Board adopted the interim inspection program for broker-dealer audits as a temporary program to implement the Board's then-new oversight authority granted by the Dodd-Frank Act amendments to Sarbanes-Oxley. A key purpose of that program, among other things, was to give the Board experience inspecting firms that perform broker-dealer audit and attestation engagements before deciding what a permanent program should look like. The interim inspection program has served that information-gathering purpose.

The interim program was not intended to be the final framework. It established a temporary approach under which firms that performed broker-dealer audit and attestation engagements were subject to inspection, and inspection results were reported on a collective basis. Those interim choices, however, were not a final determination of the scope, frequency, or reporting framework for a permanent broker-dealer auditor inspection program. As a result, the interim inspection program does not, nor was it intended to, reflect a considered, permanent determination regarding how the Board should deploy its inspection authority, including how to balance investor protection, regulatory burdens, and the efficient use of PCAOB inspection resources. However, evidence collected during the pendency of the temporary program informs the Board's consideration of the scope, frequency, and reporting framework for a permanent program.

In addition, the interim inspection program does not reflect subsequent regulatory developments. For example, when the Board adopted the interim program, the Commission had announced its intention to propose amendments to Exchange Act Rule 17a-5, but those

amendments had not yet been adopted. The PCAOB also later adopted related special attestation standards for compliance and exemption reports in 2013.[143]

Given these factors weighing in favor of replacing the interim program with a permanent inspection program, it is appropriate to consider ways in which the program should be tailored to the risks presented by different broker-dealers. The Dodd-Frank Act amendments to Sarbanes-Oxley provide that a broker-dealer auditor inspection program may differentiate among classes of broker-dealers. If the Board establishes inspection schedules, it must consider whether differing schedules would be appropriate for auditors of broker-dealers that do not receive, handle, or hold customer securities or cash or are not members of SIPC.[144]

Consistent with that statutory framework, the same level of inspection may not be warranted for every broker-dealer audit or attestation engagement. Broker-dealer audits and related attestation engagements play a role in the broader regulatory framework that protects customers, and the benefits of audit oversight within this framework are not uniform across all broker-dealers. In particular, the expected investor-protection benefits of PCAOB inspections may be greater for audits and attestation engagements of broker-dealers that file compliance reports because those broker-dealers generally maintain custody of customer cash and securities.

By contrast, for broker-dealers that file exemption reports, the connection between PCAOB inspections and reducing the risk of customer-asset loss is more indirect. PCAOB inspections may promote the quality of the financial statement audit and the exemption report review engagement, which may support reliable financial reporting and help identify issues relating to a broker-dealer's claimed exemption from the Broker-Dealer Customer Protection Rule. However, exemption report filers generally do not maintain custody of customer cash or securities. As a result, an audit or review deficiency for an exemption report filer is generally less likely to indicate customer-asset related risk than a deficiency involving a compliance report filer. The proposal is therefore needed to better align PCAOB inspection oversight with the broker-dealer engagements for which inspections are expected to provide the greatest marginal customer-asset protection benefit.

The need for tailoring also extends to inspection frequency among firms with different types of broker-dealer clients. As shown in **Exhibit 4**, the four firms with more than 10 compliance report filer clients have approximately 22 such clients per firm on average, while the 25 firms with at least one but no more than 10 compliance report filer clients have approximately three such clients per firm on average. The difference in scale is also reflected in the size of the broker-dealer clients. As shown in panel (b) of **Exhibit 3**, the four firms with more than 10 compliance report filer clients audit broker-dealers that account for 99 percent of

143 *See* Attestation Standards Adopting Release.

144 *See supra* Section II.

aggregate net capital requirement, 93 percent of aggregate net capital, and 94 percent of aggregate total assets.

The broad scope of the interim inspection program may also limit its ability to promote improvements in assurance quality. As shown in **Exhibit 4**, the 177 firms that audit only exemption report filers were inspected, on average, approximately once every nine years. Focusing inspection resources on a smaller population of firms that audit compliance report filers would permit more regular oversight of the engagements more directly associated with customer-asset risk.

For these reasons, a permanent broker-dealer auditor inspection program is needed to replace the temporary framework. A permanent program would reflect the Board's analysis of the risk concentrations within the broker-dealer market, the experience gained from the interim inspection program, subsequent regulatory developments, and the statutory considerations applicable to broker-dealer auditor inspections. The proposal would address the need for a permanent inspection framework by defining the scope of broker-dealer auditor inspections, establishing inspection frequencies, and requiring firm-specific inspection reports.

Questions:

35. Is the need for rulemaking to establish a permanent broker-dealer auditor inspection program appropriately described? If not, how could the analysis be improved?
36. Are there additional studies or data that would inform the analysis of the need for rulemaking? If so, please provide such studies or data.

C. Economic Impact

This section discusses the potential benefits, costs, and unintended consequences of establishing a permanent inspection program for auditors of broker-dealers.

i. Benefits

a. Improved Protection of Customer Assets for Compliance Report Filers

The proposal represents a balanced risk-based allocation of PCAOB oversight. The data presented in the baseline suggests that compliance report filers generally present a more direct customer-asset related risk than exemption report filers because compliance report filers generally carry customer cash and securities and make assertions under the Broker-Dealer Customer Protection Rule framework. Audits and AT 1 examination engagements for these broker-dealers therefore provide assurance on assertions closely tied to customer-asset protection, including requirements related to possession or control of customer securities and the customer reserve computation. Deficiencies in this work could affect the reliability of information that regulators use to monitor compliance with customer-asset protection requirements for broker-dealers that carry customer accounts.

The proposal would preserve PCAOB inspection oversight for these engagements and establish inspection frequencies that reflect the scale of firms' compliance report filer practices. It would require (i) annual inspection of firms that audit more than 10 compliance report filers, maintaining the regular review of the firms with the largest concentrations of compliance report filer assurance work, and (ii) at least triennial inspection for firms that audit between one and 10 compliance report filers, an increase from the current inspection rate of approximately once every four years for these firms (see **Exhibit 4**). In both cases, inspections would focus on firms' compliance report filer engagements, through which firms provide assurance on broker-dealer assertions most directly connected to customer-asset protection rules.

A rule-based annual or triennial inspection schedule may increase incentives for audit firms to maintain the quality of their audit and examination work for compliance report filers by making frequent PCAOB inspection less discretionary than under the interim program. The proposed triennial cycle would be more frequent than the average historical inspection frequency of approximately once every four years, which may increase the likelihood that audit and attestation deficiencies are identified, communicated, and remediated more efficiently. Higher assurance quality may, in turn, improve the reliability of information concerning broker-dealers' possession or control of customer securities and customer reserve computations. More reliable information may assist the Commission, DEAs including FINRA, and SIPC, supporting their ability to monitor broker-dealers' financial condition, identify compliance issues, and protect investors.

b. Increased Transparency, Accountability, and Remediation Incentives from Firm-Specific Inspection Reports for Auditors of Compliance Report Filers

The proposal would require the issuance of individual, firm-specific inspection reports for broker-dealer auditor inspections conducted under the proposed permanent broker-dealer auditor inspection program and apply the PCAOB's remediation framework for quality control criticisms identified in such reports. This would be different from the interim program, under which the Board has issued a collective report each year that describes inspection results without identifying individual firms. This change is expected to enhance the effectiveness of the broker-dealer auditor inspection program by increasing the transparency, accountability, and remedial effect of PCAOB inspection findings. This, in turn, may support investor protection by promoting higher-quality audit and attestation work and more reliable broker-dealer financial and compliance information.

Firm-specific inspection reports would provide information that is not available in collective inspection reports. A collective inspection report can identify common issues across the broker-dealer auditor inspection program, but it provides limited information about whether deficiencies were identified at a particular audit firm. Firm-specific inspection reports would provide more granular information about an inspected firm. This information may assist broker-dealers in selecting and monitoring auditors.

By attributing inspection findings to inspected firms and imposing a quality-control remediation framework, firm-specific inspection reports may increase accountability for firm leadership and engagement teams and encourage firms to address quality control deficiencies identified in their broker-dealer audit and attestation practices. The public portions of firm-specific inspection reports may create reputational risks for firms and thereby strengthen incentives to remediate deficiencies and improve audit and attestation quality.

Academic evidence from the issuer audit context supports the general proposition that PCAOB inspection findings and public reporting can affect auditor behavior, client decisions, and audit-firm reputational incentives, although the mechanism may differ for broker-dealer audits. Aobdia (2018) finds that PCAOB Part I findings[145] are associated with increased audit effort on reviewed engagements and spillover effects on other engagements of offices or partners that received a finding, suggesting that inspection findings can affect auditor behavior beyond the specific reviewed engagement.[146] Nagy (2014) finds that public disclosure of Part II quality-control criticisms is associated with loss of audit-firm market share, suggesting that such disclosures can provide a credible signal of auditor quality to audit clients.[147] Acito, Hogan, and Mergenthaler (2018) find that PCAOB inspection deficiencies are associated with audit fees and auditor turnover in the issuer market, further suggesting that inspection-report information can affect audit-firm incentives and auditor-client relationships.[148] In addition, a PCAOB staff white paper analyzing stakeholder engagement with PCAOB website data finds that inspection reports attract substantial attention and continue to generate interest well beyond their initial release.[149] These studies do not relate to any effect in the broker-dealer audit market. Nevertheless, they support the general proposition that firm-specific inspection information, public reporting, and remediation incentives can influence audit firm behavior, and PCAOB inspection reports can be a lasting reference point for stakeholders.

The magnitude of these benefits is uncertain. Broker-dealers may not use PCAOB inspection reports in the same manner as issuer audit committees, and some broker-dealer customers may have limited ability or incentive to evaluate audit firm inspection information as

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[145] PCAOB inspection reports include two parts. Part I: Inspection Observations includes discussions related to audits with unsupported opinions, other instances of non-compliance with PCAOB standards or rules, and non-compliance with independence rules. Part II: Observations Related to Quality Control includes a discussion of criticisms of a firm's system of quality control.

[146] Daniel Aobdia, *The Impact of the PCAOB Individual Engagement Inspection Process – Preliminary Evidence*, 93 The Accounting Review 53, 54-55 (2018). Daniel Aobdia completed this paper while serving as a Senior Economic Research Fellow at the PCAOB.

[147] Albert L. Nagy, *PCAOB Quality Control Inspection Reports and Auditor Reputation,* 33 Auditing: A Journal of Practice & Theory 87 (2014).

[148] Andrew A. Acito, Chris E. Hogan, and Richard D. Mergenthaler, *The Effects of PCAOB Inspections on Auditor-Client Relationships,* 93 The Accounting Review 1 (2018).

[149] Rahsan Inget, Jake Krupa, and Josh White, *Stakeholder Engagement with PCAOB Website Data*, 2025, *available at* https://pcaobus.org/economicandriskanalysis/white-papers/stakeholder-engagement-with-pcaob-website-data-2025.pdf.

compared to public company investors.[150] Kowaleski (2022) suggests that demand for audit quality may be weaker in the broker-dealer market because many broker-dealers are privately owned and lack governance mechanisms, such as audit committees, and external investor oversight that can drive demand for higher audit quality as in the issuer market. In addition, the extent to which firm-specific inspection reports affect auditor behavior may depend on the size and reputation of the audit firm, the importance of broker-dealer audits to the firm's practice, competition in the broker-dealer audit market, and whether the firm also audits issuers. Nevertheless, compared with a collective inspection report, firm-specific inspection reporting is expected to strengthen firm accountability, remediation incentives, and reputational incentives, and therefore may improve audit and attestation quality in the broker-dealer market.

c. Cost Savings for Exemption Report Filers and Their Auditors

Excluding exemption report filer audits from the inspection program is expected to reduce inspection-related costs for some audit firms, with associated savings potentially passed on to broker-dealers. Therefore, a benefit of the proposal is cost savings for the large population of exemption report filers and their auditors.

Wherever possible, this sub-section provides estimates of cost savings based on the experience with the interim broker-dealer auditor inspection program. While market conditions may change under the proposed permanent inspection program, the estimates provided here reflect the best available evidence and provide an indication of the potential cost savings associated with the proposed permanent inspection program.

1. Cost Savings for Audit Firms

The cost savings for firms that audit exemption report filers may include reduced registration and periodic reporting costs, which include the one-time application fee, annual fees, and costs of completing required forms; reduced costs to respond to inspection demands; and reduced costs associated with audit work or practice changes that firms otherwise might undertake in anticipation of, or in response to, PCAOB inspections.

Reduced Registration and Reporting Costs

Under the proposal, firms that audit only broker-dealers that file exemption reports would be exempt from registration with the PCAOB, absent a separate basis requiring registration. **Exhibit 12** summarizes the estimated registration cost savings. Registration-related

[150] *See* Zachary T. Kowaleski, *Weak Incentives for Audit Quality: Evidence from Broker-Dealers,* Social Science Research Network (SSRN) (2022), *available at* SSRN: https://ssrn.com/abstract=3733060, Zach Kowaleski completed this paper while serving as an Economic Research Fellow at the PCAOB; Jonathan Cook, Zachary T. Kowaleski, Michael Minnis, Andrew Sutherland, and Karla M. Zehms, *Auditors Are Known by the Companies They Keep*, 70 Journal of Accounting and Economics 101314 (2020). Jonathan Cook is a former employee of the PCAOB.

savings would differ depending on whether a firm is newly entering the broker-dealer audit market or is already registered with the PCAOB.

Exhibit 12. Estimated Registration Cost Savings

Form	Estimated Hours per Firm	Estimated Hourly Rate[1]	Estimated Form-Preparation Cost Savings per Firm	Estimated Number of Firms[2]	Aggregate Estimated Cost Savings	Annual Fee Savings per Firm	Aggregate Estimated Annual Fee Savings
PCAOB Form 1	3-15	$209	$627-$3,135	-	-	-	-
PCAOB Form 2	5-10	$209	$1,045-$2,090	100	$104,500-$209,000	$500	$50,000
PCAOB Form 3	1-3	$209	$209-$627	-	-	-	-

Source: PCAOB Compiled Data

Note:

[1] Estimated based on data collected for inspection year 2025.

[2] Estimated based on fiscal year 2025 FOCUS Report filings.

PCAOB Form 1. A public accounting firm applying to register with the Board must file PCAOB Form 1.[151] Firms that seek to conduct audit and attestation engagements for exemption report filers, and that are not otherwise required to register, would avoid the cost of preparing PCAOB Form 1 and paying the application fee under the proposal. The one-time application fee is currently $500 for audit firms with fewer than 50 issuer clients. Staff estimate that preparing PCAOB Form 1 would take approximately three to 15 hours, at a cost of $627 to $3,135.[152]

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[151] *See* Sarbanes-Oxley Section 102 and PCAOB Rule 2101, *Application for Registration*.

[152] The time required to complete PCAOB Form 1 varies based on the number of proceedings involving the applicant, the number of the applicant's associated entities, and the number of the applicant's additional offices. In 2025, a total of 86 firms filed PCAOB Form 1. Because firms may file PCAOB Form 1 for reasons unrelated to broker-dealer audit work, and available PCAOB Form 1 data does not allow staff to identify which applicants, if any, would have registered solely because of exemption report filer engagements, staff cannot estimate aggregate PCAOB Form 1-related cost savings associated with the proposal.

Staff estimate hourly rates using PCAOB broker-dealer audit fee and audit hour data, calculated as audit fees divided by audit hours, separately by firm type and broker-dealer type. This approach reflects realized hourly fee rates observed in broker-dealer audit engagements and captures differences across relevant categories of broker-dealer auditors. Using this approach, staff estimate hourly rates ranging from approximately $153 to $209,

PCAOB Forms 2 and 3. A registered public accounting firm must use PCAOB Form 2 to file the annual report and any amendments to that report and must use PCAOB Form 3 to file special reports and any amendments to those reports.[153] Firms that are registered solely to conduct audit and attestation engagements for exemption report filers could avoid the costs of preparing and filing these forms under the proposal. They also could avoid annual fees, which are currently $500 for firms with 200 or fewer issuer audit clients or fewer than 1,000 personnel. Staff estimate that 100 firms that would no longer be required to register with the PCAOB under the proposal would collectively save approximately $104,500 to $209,000 annually in PCAOB Form 2 preparation and filing time and $50,000 in annual fees.[154] Because PCAOB Form 3 must be filed only in response to reportable events, staff are not able to estimate aggregate savings from reduced PCAOB Form 3 filings.[155]

depending on firm type and broker-dealer type. The approach has limitations because audit fees divided by audit hours is not a direct measure of auditors' fully loaded labor cost. Audit fees may reflect staffing mix, market competition, client bargaining power, discounts or write-offs, engagement complexity, risk premiums, overhead, and profit margins, and the available data is limited to engagements and firms for which audit fee and audit hour information was collected through the inspection program. Because audit fees generally would be expected to cover engagement costs, including personnel costs, overhead, and any profit margin, hourly costs for broker-dealer audit work are unlikely to exceed the realized fee-per-hour estimates on average. A higher average hourly cost would imply that broker-dealer audit engagements are unprofitable on average. By comparison, SEC staff's occupational hourly-rate methodology uses Bureau of Labor Statistics wage data adjusted for non-wage employer costs such as bonuses, benefits, and overhead, and reports a 2025 hourly rate of $348 for accountants and auditors. See SEC, *Updated Methodology for Calculating Occupational Hourly Rates* (Dec. 19, 2025), Appendix I. Because the PCAOB-derived rates used in this analysis are lower than the SEC staff occupational hourly rate for accountants and auditors, the resulting cost-savings estimates are lower than they would be if staff applied the SEC occupational hourly rate.

[153] *See* Sarbanes-Oxley Section 102(d), PCAOB Rule 2200, *Annual Report*, and PCAOB Rule 2203, *Special Reports*.

[154] As of fiscal year end 2025, 177 (86 percent) of the 206 broker-dealer auditors audited only exemption report filers. Of these 177 audit firms, 100 (56 percent) did not have issuer clients and therefore would no longer be required to register with the PCAOB solely because of their broker-dealer audit practice. Staff estimate that a firm with only broker-dealer clients would spend five to 10 hours annually completing PCAOB Form 2. Based on this estimate, the 100 firms that would no longer be required to register with the PCAOB under the proposal would collectively save approximately 500 to 1,000 hours annually in PCAOB Form 2 preparation and filing time. Applying an estimated hourly rate of $209 to the estimated PCAOB Form 2 preparation-time savings described above results in estimated annual cost savings of approximately $104,500 to $209,000. Based on the $500 annual fee, the 100 firms would collectively save an estimated $50,000 in annual fees.

[155] The time required to complete PCAOB Form 3 varies based on the type of reportable event. For example, describing legal proceedings may take longer than adding a license. Staff estimate that a firm may spend one to three hours completing each PCAOB Form 3. Applying the estimated $209 hourly rate for broker-dealer auditors with exemption-report-filer clients, but no compliance-report-filer clients, this corresponds to cost savings of approximately $209 to $627 per PCAOB Form 3 filing. Because PCAOB Form 3 is filed only upon the occurrence of reportable events, the number of filings is likely to fluctuate from year to year. As a reference point, broker-dealer auditors without issuer clients filed 11 PCAOB Forms 3 in 2025.

Reduced Inspection- and Enforcement-Related Costs

By scoping out all audits of exemption report filers from the inspection program, the proposal would reduce inspection-related costs for audit firms that perform those engagements.[156] The cost savings include reduced personnel time associated with preparing for inspections, interacting with PCAOB inspection staff, and responding to requests for information during and after inspections.

Exhibit 13 estimates the inspection-related cost savings, based on estimates of personnel time to prepare for and participate in inspections under the interim inspection program.[157]

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[156] Aggregate savings would depend on how PCAOB inspection resources are deployed under the permanent inspection program. Because the proposal is intended to allow the PCAOB to focus more inspection resources on engagements involving compliance report filers, some of the savings for firms auditing exemption report filers may be offset by increased inspection-related costs for firms auditing compliance report filers. Accordingly, the estimates in this sub-section should be interpreted as estimated cost savings for exemption report filer engagements, rather than as a prediction of aggregate reductions in PCAOB inspection activity or total inspection-related costs across all broker-dealer engagements.

[157] Staff measured actual time spent by firm personnel meeting with inspectors using PCAOB inspection records. Because those records do not capture all firm time incurred in connection with an inspection, staff also estimated unobserved time spent preparing for inspector interactions and responding to requests for information during and after the inspection. Specifically, the time spent by firms responding to requests for information during the inspections is assumed to be three times the actual time spent meeting with inspectors. The time spent by firms preparing to interact with inspectors is assumed to be 10 percent of the time spent during the inspections (the sum of the actual time spent meeting with inspectors and the estimated time spent responding to requests for information during the inspections). The time spent by firms responding to requests for information after the inspections, including responding to comment forms, is assumed to be 20 percent of the time incurred during the inspections. All assumptions used in this analysis are based on conversations with the PCAOB's Division of Registration and Inspections and their insights into actions undertaken by firms to prepare for and facilitate inspections. The estimates are calculated separately by firm type and broker-dealer type. The firm types are: (i) firms that audited only exemption report filers; (ii) firms that audited at least one, but no more than 10 compliance report filers; and (iii) firms that audited more than 10 compliance report filers. The broker-dealer types are exemption report filers and compliance report filers.

To monetize the estimated hours saved, staff estimated personnel hourly rates for the same firm types and broker-dealer types, calculated as audit fees divided by audit hours. Similar to the estimated hours saved, estimated hourly rates are calculated separately by firm type and broker-dealer. The estimated hourly rates are calculated as audit fees divided by audit hours for each category, using available PCAOB broker-dealer audit data. These rates reflect realized fee-per-hour measures and are not direct measures of wage rates, standard billing rates, or fully loaded labor costs. The lower estimated hourly rates for firms that audited compliance report filers, particularly firms that audited more than 10 compliance report filers, may reflect differences in staffing mix, engagement pricing, realization, client bargaining power, recurring engagement efficiencies, or other engagement characteristics, rather than lower personnel costs.

Exhibit 13: Estimated Inspection Cost Savings for Exemption Report Filer Engagements

Firm Type	Estimated Personnel Hours per Engagement[1]	Number of Engagements (Exemption Report Filers)[2]	Total Estimated Personnel Hours[4]	Estimated Hourly Rate[3]	Estimated Cost Savings[4]
Firms that Audited Only Exemption Report Filers	56	52	2,919	$209	$609,982
Firms that Audited Compliance Report Filers (Excluding Auditors of More Than 10 Compliance Report Filers)	94	10	936	$195	$182,313
Firms that Audited Compliance Report Filers (Only Auditors of More Than 10 Compliance Report Filers)	379	16	6,059	$156	$946,968
Total	**-**	**78**	**9,914**	**-**	**$1,739,263**

Source: PCAOB Compiled Data

Note:

[1] Estimated using observations from inspection year 2023, the most recent year for which this data is available. The difference between the estimated average hours for firms with more than 10 compliance report filer clients and firms with 10 or fewer such clients likely reflects, in part, more extensive inspection preparation processes at firms with more compliance report filer clients, including involvement of national office personnel, internal coaching, preparation of presentation materials, and root cause analysis related to inspection comments. The difference may also reflect greater engagement complexity.

[2] Number of exemption report filer audit engagements reviewed in inspection year 2025.

[3] Estimated based on data collected for inspection year 2025.

[4] Total Estimated Personnel Hours are calculated using unrounded Estimated Personnel Hours per Engagement, and Estimated Cost Savings are calculated using unrounded Total Estimated Personnel Hours and Estimated Hourly Rate. Accordingly, calculations using the displayed values may not produce the Total Estimated Personnel Hours or Estimated Cost Savings.

The total inspection-related cost savings are estimated to be approximately $1.7 million. Because the number and mix of engagement reviews under the proposal may differ from those

conducted in inspection year 2025, this amount is a reference point rather than a prediction of actual cost savings under the proposal.

In addition to avoiding inspection-related costs, firms that audit only exemption report filers, have no other basis for PCAOB registration, and cease to be registered with the PCAOB would generally no longer be subject to PCAOB investigations or enforcement proceedings related to that work. These firms therefore could avoid costs associated with responding to any such investigations or enforcement proceedings that would have occurred under the current registration framework. The amount of any savings would depend on whether a firm would have become subject to such an investigation or enforcement proceeding under the current registration framework. The proposal would not, however, affect the SEC's authority to investigate or bring enforcement actions regarding compliance with applicable federal securities laws and other requirements governing broker-dealer annual reports and the associated audit, examination, and review reports required under Exchange Act Rule 17a-5.

Finally, for firms that audit exemption report filers, the proposal may also reduce costs that would be incurred in anticipation of, or in response to, PCAOB inspections beyond the direct costs of preparing for and participating in inspections. The proposal would not alter the requirement that exemption report filers obtain audit and attestation engagements performed under PCAOB standards, but may reduce incentives for these firms to focus additional attention on aspects of those engagements that they would otherwise expect PCAOB inspections to review. These savings may arise from steps firms typically take to strengthen assurance quality in anticipation of PCAOB inspections. For example, firms may proactively address potential quality control weaknesses in audit processes, competency, internal documentation, or other quality control components because of the possibility of PCAOB inspection. After an inspection, firms may respond to identified deficiencies by performing additional procedures, changing engagement practices, revising methodologies, or improving quality control systems. Evidence from the issuer audit context suggests that PCAOB inspection findings can affect auditor behavior.[158] The extent to which broker-dealer auditors would respond to inspection findings or the possibility of inspection in the same manner as issuer auditors is uncertain.

Some inspection-related cost savings described above could be offset if firms become subject to alternative oversight or quality-review requirements. For example, broker-dealer engagements currently outside the scope of the AICPA peer review program could become subject to peer review in the future.[159] Alternative oversight could also mitigate potential reductions in assurance quality. Firms will remain subject to other regulatory oversight,

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[158] Aobdia, *The Impact of the PCAOB Individual Engagement Inspection Process – Preliminary Evidence* 53 (finding that a PCAOB inspection deficiency in an issuer audit was associated with increased audit hours on that engagement in the following year).

[159] The AICPA indicated in 2021 that broker-dealer audits were removed from the scope of its peer review program because they were treated, for purposes of that program, as subject to PCAOB inspection, and that the program sought to avoid a gap in coverage if certain broker-dealer audits later ceased to be subject to PCAOB inspection. *See* AICPA May 2021 Reviewer Alert available at: https://www.aicpa-cima.com/news/download/reviewer-alert-may-2021

including SEC oversight, and, if they remain registered with the PCAOB, to PCAOB enforcement oversight. This oversight may limit the extent to which firms reduce assurance quality to achieve further cost savings.

These cost savings should be considered alongside the proposal's potential effects on audit and attestation quality as further discussed below.

2. Cost Savings for Broker-Dealers

Reduced Audit Fees

Some of the cost savings for audit firms discussed above could be passed through to exemption report filers in the form of lower audit fees. Any such decreases in audit fees may ultimately benefit investors to the extent they are reflected in lower brokerage fees, trading costs, or other customer charges.

Reduced Accounting Support Fees Paid by Some Broker-Dealers

Under the proposal and related amendments to the PCAOB's funding rules, broker-dealers that file exemption reports would no longer be included in the classes among which the broker-dealer accounting support fee is allocated. In 2025, 610 exemption report filers were assessed accounting support fees totaling approximately $5.4 million. Accordingly, some exemption report filers could realize cost savings under the proposal. The amount of those savings would depend on the allocation of the fee under the amended PCAOB funding rules.

Questions:

37. Does the analysis above appropriately describe the benefits of the proposal? If not, how could the analysis be improved?
38. Are there additional studies or data that would inform the analysis of benefits? If so, please provide such studies or data.
39. Are any additional benefits quantifiable? If so, please provide as much detail as possible, with supporting data or analysis.

ii. Costs

a. Costs to Compliance Report Filers and Their Auditors from Changes to Program Scope

Under the proposal and related amendments to the PCAOB's funding rules, broker-dealers that file exemption reports would no longer be included in the classes among which the broker-dealer accounting support fee is allocated. The proposed amendments would not change the use of average quarterly tentative net capital in determining individual broker-dealers' fee obligations. The PCAOB's recoverable broker-dealer program costs would therefore be allocated across a smaller population of broker-dealers. As a result, broker-dealers that file compliance reports could be assessed higher accounting support fees than they otherwise would have been assessed. The magnitude of any increase would depend on the extent to

which the PCAOB's recoverable broker-dealer program costs would change under the proposed amendments, including any reductions associated with a smaller population of broker-dealers and audit engagements subject to inspection, as well as the allocation of those costs under the PCAOB's funding rules.

In addition, firms that audit compliance report filers may incur increased inspection-related costs relative to the interim program. As shown in **Exhibit 4**, an estimated 25 firms that audit at least one and no more than 10 compliance report filers would be inspected at least once every three years, which is more frequent than the historical average of approximately once every four years for these firms. These firms may incur additional costs associated with preparing for inspections, interacting with PCAOB inspection staff, and responding to inspection-related requests. The magnitude of any such increase would depend on how PCAOB inspection resources are deployed under the permanent program. Although the proposal specifies firm-level inspection frequency, it does not specify how many compliance report filer engagements would be selected for review during those inspections. Therefore, the net effect on any particular firm would depend on: (i) the firm's own mix of compliance report filer and exemption report filer clients, and (ii) the number of engagements selected for review.

b. Costs of Firm-Specific Inspection Reports

Under the proposal the PCAOB would issue individual, firm-specific inspection reports. This would create additional incentives for inspected firms to take remedial actions in response to inspection findings and to document and demonstrate those actions. Inspected firms may spend more resources than they currently do reviewing, responding to, and addressing inspection findings. These costs may include management and personnel time spent evaluating inspection findings, preparing responses, developing and implementing remedial actions, documenting those actions, and engaging with PCAOB staff during the remediation process. Firms that seek Commission review of inspection findings or determinations regarding the remediation of quality-control criticisms may incur additional costs associated with preparing and pursuing such requests for review. Overall, these costs may vary depending on the nature and severity of the findings and the size and complexity of the firm. For smaller firms, the fixed costs of establishing and managing the response process may be more significant because they are spread over fewer engagements and personnel.

Firm-specific inspection reporting could also create reputational costs for inspected firms. Public disclosure of inspection findings may affect how broker-dealers, regulators, counterparties, or other stakeholders perceive the quality of a firm's broker-dealer assurance practice. Although the magnitude of any reputational effect in the broker-dealer audit market is uncertain, individual inspection reports could affect client retention, client acceptance, or audit-firm participation in the broker-dealer audit market.

Replacing the collective report with firm-specific inspection reports could reduce, to some extent, the centralized identification and presentation of trends across the broker-dealer auditor inspection program, which may impose some costs on users of the collective reports to

the extent they would have to generate aggregate results themselves from the firm-specific reports. This effect may be mitigated because information from firm-specific reports could be analyzed collectively and presented through staff publications based on aggregate inspections data, as the PCAOB currently does with information from issuer inspections. Any such analysis would be limited to the compliance report filer engagements inspected under the proposed program.

c. Foregone Investor-Protection Benefits from Reduced PCAOB Oversight

The proposal would eliminate PCAOB registration requirements for firms that audit only exemption report filers and have no other basis for registration. As a result, firms that cease to be registered would no longer be subject to PCAOB oversight, including inspections and enforcement. In addition, even when a firm remains registered for other reasons, its exemption report filer engagements would not be subject to PCAOB inspection.

Scoping out such exemption report filer engagements from the permanent inspection program could lower the quality of these broker-dealers' financial statements and exemption reports. Without the prospect of inspections, auditors of exemption report filers may have weaker incentives to perform audit and review engagements that comply with PCAOB standards.[160] It is notable, however, that the review engagement for exemption reports provides moderate assurance, which is a lower level of assurance than the reasonable assurance provided by the examination engagement for compliance reports or audits of financial statements. The potential effects of any reduction in the assurance quality of review engagement may be fairly limited.

Reliable financial statements may provide benefits to exemption report filers' customers, even if those benefits arise through the use of that information by regulators or other market participants and hence may be indirect. First, an introducing broker-dealer can become insolvent or experience financial distress. Although its customers' assets are held at a carrying broker-dealer, customers of a failed introducing broker-dealer may need to transfer their account relationship to another introducing broker-dealer, incurring recontracting costs. Reliable financial statements can assist regulators, counterparties, and other market participants in assessing the introducing broker-dealer's financial condition and identifying signs of deterioration before failure occurs. Additionally, a broker-dealer may also conceal or understate liabilities, causing its reported financial condition, including compliance with net capital requirements, to appear stronger than it actually is. Rigorous audits can help deter or detect such financial-reporting misconduct.

Removing exemption report filer engagements from the program could also reduce information available to regulators through the PCAOB inspection process. Under PCAOB Rule

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[160] Recent academic work suggests that there is demand for low-quality broker-dealer auditors. *See* Kowaleski, *Weak Incentives for Audit Quality: Evidence from Broker-Dealers*; Cook, et al., *Auditors Are Known by the Companies They Keep*.

4004, the Board shares information obtained during inspections related to potential violations of, among other things, any statute or rule administered by the SEC with the SEC and appropriate state regulatory authorities,[161] and may also make referrals or report information to other regulatory and law enforcement agencies as deemed appropriate.[162] From 2015 to 2025, the Board issued about 27 PCAOB Rule 4004 reports annually, including about nine per year involving exemption report filers, addressing potential noncompliance with U.S. generally accepted accounting principles and SEC rules, including independence. The foregone marginal contribution of this additional information may be limited, as the SEC, DEAs including FINRA, and state securities regulators already collect extensive amounts of information on individual registered representatives and broker-dealer firms.

Scoping out engagements of exemption report filers could indirectly affect classification risk. A broker-dealer could incorrectly claim exemption-report status, fail to comply with the conditions of its exemption, or change its activities over time in ways that are not immediately reflected in the scoping determination. However, staff's analysis of past PCAOB inspection findings and enforcement actions did not identify any instances in which the PCAOB found that a broker-dealer filed an exemption report when it should have filed a compliance report, i.e., when it was not permitted to file an exemption report.[163] In addition, exemption report filers would continue to be subject to the requirement that an independent public accountant review the exemption report in accordance with PCAOB standards. If such engagements were excluded from the PCAOB inspection program, they could still be subject to alternative oversight or quality review mechanisms. Finally, as also discussed below, broker-dealers' exemption status under the Broker-Dealer Customer Protection Rule is subject to ongoing oversight by the SEC and FINRA through routine examinations and the review of periodic FOCUS filings.

More broadly, PCAOB oversight of introducing broker-dealer audit and attestation engagements is only one node in a broader regulatory architecture designed to protect customer assets, preserve market integrity, and mitigate broker-dealer insolvency and misconduct. Broker-dealers remain under the statutory oversight of the SEC and FINRA, which includes the Broker-Dealer Net Capital Rule, monitoring of Broker-Dealer Customer Protection Rule exemption status, and examinations.[164] New introducing broker-dealer relationships are

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[161] PCAOB Rule 4004, Procedure Regarding Possible Violations, states:

If the Board determines that information obtained by the Board's staff during any inspection indicates that the registered public accounting firm subject to such inspection, any associated person thereof, or any other person, may have engaged, or may be engaged, in any act, practice, or omission to act that is or may be in violation ... , the Board shall, if it determines appropriate – (a) report information concerning such act, practice or omission to – (1) the Commission; and (2) each appropriate state regulatory authority ...

[162] PCAOB Rule 4004 contains the following note: "The Board may, as appropriate, make referrals or report information to regulatory and law enforcement agencies other than those described in Rule 4004."

[163] *See* Section II.E.

[164] SEC, *Amendment to Single Issuer Exemption for Broker-Dealers*, Exchange Act Release No. 86073 (June 10, 2019) at 5 (discussing broker-dealers' continuing obligations under the federal securities laws and oversight by the SEC and FINRA, including financial responsibility requirements); Michael P. Jamroz, The Customer Protection Rule,

also subject to due diligence conducted by carrying broker-dealers, which manage their own financial and settlement exposure. Such monitoring is required by FINRA Rule 4311, which requires carrying broker-dealers to evaluate any financial, operational, credit, and reputational risk that might be posed by their agreements with new introducing broker-dealers.[165] FINRA Rule 4311 specifies that this evaluation may include review of an introducing broker-dealer's business model, product mix, FOCUS Reports, audited financial statements, and disciplinary history.[166]

Consequently, scoping the engagements of exemption report filers out of PCAOB inspections is unlikely to materially increase the risk of customer harm arising from these broker-dealers' insolvency or financial misconduct. Although the SEC and FINRA rely on introducing broker-dealers' audited financial statements and reviewed exemption reports, annual filings are not the only information these regulators use. Frontline safeguards draw on more frequent, unaudited operational data—such as periodic FOCUS filings and, for broker-dealers that clear through a carrying broker-dealer, daily clearing and settlement reconciliations. In addition, FINRA and the SEC examine broker-dealers' books and records maintained under Exchange Act Rules 17a-3 and 17a-4, including cash and bank records and business communications, and collect and use, where applicable to a broker-dealer's business, transaction data reported through the Consolidated Audit Trail ("CAT") and Trade Reporting and Compliance Engine ("TRACE"). These examinations are conducted on a recurring, risk-based cycle. Because this ongoing regulatory oversight, together with the financial and settlement monitoring that carrying broker-dealers perform under their carrying agreements, operates alongside annual financial reporting, these parallel channels may substantially absorb the incremental risk of lower assurance quality for exemption report filer engagements.

The potential reduction in assurance quality may also be mitigated for exemption report filers audited by firms that remain subject to PCAOB inspection because they also audit compliance report filers. Inspection of firmwide quality controls may have implications for the exemption report filer engagements to the extent the same quality controls apply across both types of engagements, even though the exemption report filer engagements would not be subject to inspection.

d. Potential Costs Related to the Advisers Act Custody Rule

The proposed scope of the broker-dealer auditor inspection program may affect audit firms that audit only exemption report filers and must maintain their status as "subject to regular inspection" by the PCAOB to satisfy requirements under the Advisers Act Custody Rule. As discussed in Section III.H, certain SEC-registered investment advisers must engage a PCAOB-registered independent public accountant that is subject to regular PCAOB inspection to

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57 The Business Lawyer 1069, 1070-72 (2002) (describing the Broker-Dealer Customer Protection Rule and its role in protecting customer cash and securities).

165 This counterparty monitoring is codified in FINRA Rule 4311(b)(4).

166 Supplementary Material .03 to FINRA Rule 4311.

perform certain annual surprise examinations or audits of pooled investment vehicles. If an audit firm would no longer be considered subject to regular inspection as a result of the proposal, the firm may no longer be able to perform those engagements and could lose associated clients and revenue.

Investment advisers that currently engage such audit firms may need to change firms and could face costs associated with identifying and engaging a replacement. They may also have fewer audit firms from which to choose, which could increase the cost of obtaining the required services.

The magnitude of these costs is uncertain and would depend on how the Advisers Act Custody Rule applies following adoption of a permanent broker-dealer auditor inspection program and whether the SEC provides any accommodation. As discussed in Section III.H, the SEC has proposed eliminating the PCAOB registration and inspection requirements for audit firms performing specified engagements under the Advisers Act Custody Rule. If the relevant Commission amendments are adopted and become effective no later than the effective date of the proposed PCAOB amendments, the potential costs discussed above would not arise.

Questions:

40. Does the analysis above appropriately describe the costs of the proposal? If not, how could the analysis be improved?
41. Are there additional studies or data that would inform the analysis of costs? If so, please provide such studies or data.
42. Are any additional costs quantifiable? If so, please provide as much detail as possible, with supporting data or analysis.

iii. Unintended Consequences

The potential reduction in audit and attestation quality for exemption report filer engagements is discussed above. This sub-section discusses additional potential market responses or secondary effects that could arise from the proposal.

a. Potential Effects on Detection and Deterrence of Broker-dealer Misconduct

In addition to the potential effects on audit and attestation quality discussed above, the proposal could have a separate, indirect effect on the detection or deterrence of broker-dealer misconduct. By eliminating PCAOB inspection of exemption report filer engagements, the proposal could reduce the incremental incentive that PCAOB inspection provides for auditors to identify indications of misconduct encountered incidentally during the financial statement audit or exemption report review. Such misconduct may include churning, unsuitable recommendations, or other misconduct. To the extent PCAOB inspection promotes greater auditor scrutiny, excluding exemption report filer engagements from inspection could reduce the incidental detection or deterrence of such misconduct. Because an audit or review

engagement normally does not include procedures specifically designed to detect such misconduct, however, the magnitude of any effect on detection or deterrence is uncertain.

As discussed above, the PCAOB is not the primary regulator of broker-dealer conduct. Rather, the SEC and FINRA directly oversee broker-dealer activities, including broker-dealers' compliance with the standard of conduct established by Regulation Best Interest.[167] In addition, auditors of exemption report filers would remain subject to SEC oversight of their audit and review work. Accordingly, the incremental effect of the proposal on the detection and deterrence of misconduct is uncertain.

b. Competition

The proposal may create incentives for some smaller firms that currently audit compliance report filers to exit that segment and focus only on exemption report filer engagements. For firms with no issuer clients or other basis for PCAOB registration, the proposal would mean that discontinuing compliance report filer engagements could allow a firm to avoid PCAOB oversight altogether to reduce compliance costs while continuing to serve clients whose engagements do not require PCAOB inspection.

If firms respond to the proposal in this way, the shift could reduce the supply of auditors in the compliance report filer segment, which could limit broker-dealer choice of auditors and, in turn, place upward pressure on audit fees. Fiscal year 2025 data indicates that 14 of the 29 firms auditing compliance report filers have only one such client.[168] Of these, seven firms do not have any issuer clients. These seven firms may have stronger incentives to exit the compliance report filer segment entirely in order to be exempt from PCAOB oversight. The strength of this incentive would depend on firm-specific factors, including the significance of the compliance report filer within the firm's client portfolio, the extent to which the firm serves other non-issuer clients for which PCAOB registration is required or beneficial, and the magnitude of any cost savings associated with becoming exempt from PCAOB oversight.

In addition, the proposed inspection frequency framework could create incentives for audit firms to remain below the annual inspection threshold by limiting the number of compliance report filer engagements they accept or retain to 10 or fewer. This risk may be limited, however, because fiscal year 2025 data does not indicate clustering near this threshold: four audit firms serve between 14 and 32 compliance report filers, while the remaining 25 firms audit between one and seven such filers.

The proposal could lead to increased competition among auditors of exemption report filers as regulatory relief and related cost savings could lower barriers to entry and attract new auditors to serve this segment. An increase in the number of auditors willing to serve

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[167] See SEC, Regulation Best Interest: The Broker-Dealer Standard of Conduct, Exchange Act Release No. 86031 (June 5, 2019).

[168] PCAOB compiled data for fiscal year end 2025.

exemption report filers could reduce audit fees for some broker-dealers that file exemption reports. The effect on assurance quality, however, is uncertain and would depend on factors such as the types of firms that expand their participation in the exemption report filer segment, broker-dealer demand for audit quality, and the extent to which reduced PCAOB oversight affects auditor incentives. Research focusing on the impact of regulatory changes on audit markets suggests that low quality auditors exit the audit market to avoid regulatory scrutiny by the PCAOB.[169] Research also provides evidence that deregulation is associated with declines in audit quality.[170] If there is entry of lower-quality auditors operating outside PCAOB oversight, and if such auditors tend to match with lower-quality broker-dealers, it could create pockets of elevated risk in the exemption report filer space and may require higher attention and effort from other regulators.

Questions:

43. Does the analysis above appropriately describe the potential unintended consequences? If not, how could the analysis be improved?
44. Are there additional studies or data that would inform the analysis of unintended consequences? If so, please provide such studies or data.

D. Alternatives Considered

The Board has considered certain alternative approaches to aspects of the proposed permanent inspection program. This sub-section discusses considerations related to those alternatives.

i. Why Rulemaking is Preferable to Other Policy-Making Approaches

The Board's policy tools include alternatives to rulemaking, such as issuing staff guidance or continuing to administer the interim inspection program under PCAOB Rule 4020T while modifying inspection frequency, inspection scope, or inspection focus. The Board considered whether such alternatives would be preferable to specifying the principal features of the permanent inspection program by rule.

The Board preliminarily believes that rulemaking is the preferable approach. Rulemaking is particularly appropriate because the proposal would define the scope of the permanent inspection program and exempt certain audits and attestation engagements from that program. Sarbanes-Oxley Section 104(a)(2) contemplates that the Board would establish the program's scope through rulemaking, providing that the Board may differentiate among classes of broker-dealers, as appropriate, and providing that a public accounting firm is not required to

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[169] Mark L. DeFond and Clive S. Lennox, *The Effect of SOX on Small Auditor Exits and Audit Quality,* 52 Journal of Accounting and Economics 21 (2011).

[170] Marios Fasoulas and Evangelos Chytis, *The Effect of Audit Market Deregulation on Audit Competition and Quality,* 24 Accounting and Management Information Systems 5 (2025).

register with the Board if the firm is exempt from any broker-dealer auditor inspection program the Board may establish. A rule-based approach therefore provides a clearer basis for determining which broker-dealer engagements are subject to inspection and therefore which auditors are required to register with the Board. Rulemaking also provides greater certainty regarding the principal features of the permanent inspection program, including its scope, inspection frequencies, and reporting framework. That certainty may help audit firms and broker-dealers anticipate inspection-related obligations and costs. Further, rulemaking also helps ensure that the interim inspection program does not become a de facto permanent framework without the Board considering the statutory factors and making the policy judgments required for a permanent inspection program.

By contrast, staff guidance or adjustments to inspection frequency, scope, or focus under the interim inspection program could inform or refine the administration of existing oversight but would not provide a rule-based basis for excluding engagements of a class of broker-dealers, including exemption report filers, from inspection and, where applicable, relieving firms from registration requirements. Nor would those approaches provide the transparency, public comment, SEC approval, or regulatory certainty associated with establishing the principal features of the permanent broker-dealer auditor inspection program by rule.

ii. Other Rulemaking Alternatives Considered

In developing the proposed permanent inspection program, the Board considered two principal alternatives to the proposed scope of the permanent broker-dealer auditor inspection program. First, the Board generally considered including audits and attestation engagements of all broker-dealers within the program, while using differentiated inspection frequencies, inspection scope, or other risk-based features to account for differences in customer-asset related risk. The Board particularly considered an alternative where the inspection scope for exemption report filer engagements would be limited to the auditor's review of the exemption reports. Second, the Board considered eliminating the broker-dealer auditor inspection program altogether. This sub-section evaluates the economic effects of the alternatives relative to the proposed permanent inspection program.

a. Inclusion of Exemption Report Filer Engagements

To preserve some of the investor-protection benefits of PCAOB inspection while tailoring the intensity of oversight, the Board has considered an alternative under which engagements of exemption report filers would be included in the permanent broker-dealer auditor inspection program but would be subject to a less intensive inspection approach than under the current interim inspection program. Specifically, under this alternative, the auditor's review of the exemption report, rather than both the review engagement and the related financial statement audit, would be subject to inspection. Under this approach, inspections would focus on whether auditors appropriately evaluated the broker-dealer's eligibility for the claimed exemption from the Broker-Dealer Customer Protection Rule and whether exceptions to the exemption conditions were identified and properly reported.

The benefits and costs of this alternative relative to the proposal are discussed in detail below.

1. Benefits

Relative to the proposal, this alternative would preserve some PCAOB oversight of exemption report filer engagements. In particular, relative to the proposal, this alternative could reduce potential classification risk (and the associated potential risk to customer assets) by maintaining PCAOB insight into whether broker-dealers are properly claiming exemption status.

The investor-protection benefit of this additional oversight, however, may be limited. As shown in **Exhibit 8**, at the engagement level, review engagements for exemption report filers generally had lower deficiency rates than examination engagements for compliance report filers. As shown in **Exhibit 10**, relatively low percentages of review engagements had deficiencies involving incorrect exemptions or understanding exemption conditions. In addition, PCAOB inspections from 2015 through 2025 did not identify any instances in which the PCAOB found that a broker-dealer filed an exemption report when it should have filed a compliance report. Accordingly, the historical inspection findings suggest that subjecting exemption report filer engagements to the review-engagement-only inspection approach under this alternative may provide limited incremental investor-protection benefits relative to complete exclusion of those engagements from the inspection program.

2. Costs

Relative to the proposal, this alternative would preserve some additional PCAOB oversight of exemption report filer engagements, but would reduce the cost savings and inspection-resource efficiencies expected from excluding those engagements from the proposed permanent inspection program.

One important cost of this alternative is that maintaining any meaningful degree of inspection coverage over firms that audit exemption report filers could require a significant number of inspections each year. With 2,976 exemption report filers identified in fiscal year 2025 FOCUS Report filings, an inspection program that includes review of even a very small fraction of such broker-dealer engagements could require significant PCAOB resources that would otherwise be available for inspections of firms that audit compliance report filers and issuers, where the potential investor-protection benefits of inspection are greater. Thus, even the review-engagement-only inspection approach under this alternative would involve an opportunity cost by directing inspection resources away from engagements more directly connected to customer-asset protection.

Another cost of this alternative is that audit firms that audit only exemption report filers, and that have no other basis for PCAOB registration, would remain subject to PCAOB registration, annual fees, PCAOB reporting obligations, and inspection-related costs described

above. The fixed costs of maintaining PCAOB registration and complying with PCAOB reporting obligations may impose a greater burden on smaller firms because they are spread over fewer engagements. Some portion of the costs to audit firms may be passed through to exemption report filers in the form of higher audit fees.

Including exemption report filer engagements in the permanent inspection program also would eliminate the accounting support fee savings expected under the proposal because exemption report filers would remain in the fee-allocation population under this alternative.[171] In 2025, 610 exemption report filers were assessed broker-dealer accounting support fees totaling approximately $5.4 million.

In light of the above considerations, the Board is not proposing to adopt this alternative. The Board preliminarily believes that the proposal better balances investor protection with the costs and regulatory burdens of PCAOB oversight by focusing the permanent inspection program on engagements involving broker-dealers that file compliance reports.

b. Elimination of the Broker-Dealer Auditor Inspection Program

The Board has considered eliminating the PCAOB broker-dealer auditor inspection program altogether.[172] Under this alternative, broker-dealer audits and attestation engagements would continue to be required under Exchange Act Rule 17a-5 and performed under PCAOB standards; however, these engagements, including both compliance report filer engagements and exemption report filer engagements, would not be subject to PCAOB inspection.

The benefits and costs of this alternative relative to the proposal are discussed in detail below.

1. Benefits

Eliminating the broker-dealer auditor inspection program altogether would provide broader regulatory relief and greater cost savings than the proposal's approach of scoping out only exemption report filers. Under this alternative, auditors of compliance report filers would avoid registration costs, inspection-related costs, and costs associated with practice changes undertaken in anticipation of, or in response to, PCAOB inspections, to the extent those costs are attributable to their broker-dealer audit practices and are not otherwise required to be

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[171] As discussed in Section III.G, the funding rules allocate the broker-dealer accounting support fee among eligible broker-dealers based principally on their average quarterly tentative net capital, rather than the frequency or intensity with which their auditors or engagements are inspected.

[172] The Board adopted the PCAOB temporary rule without fully discussing its economic impact but with a commitment to do so in connection with later proposing a permanent program. While the Board believes it is appropriate to discuss the economic impact of the proposal relative to the current PCAOB temporary rule and interim inspection program, the discussion of the no-program alternative informs the analysis of the economic impact of establishing the interim inspection program.

incurred (e.g., for issuer audit or substantial role work). To the extent such savings are passed through, compliance report filers could benefit from lower audit fees. Additionally, compliance report filers would realize cost savings from no longer being assessed broker-dealer accounting support fees.

These cost savings are discussed in detail below.

Cost Savings for Audit Firms

(a) Reduced Registration Costs

Under this no-inspections alternative, firms that audit compliance report filers and have no other basis for PCAOB registration could avoid PCAOB registration-related costs, including annual fees and costs associated with PCAOB reporting obligations.

PCAOB Form 1. As discussed in Section IV.C.i.c.1, although staff can estimate the cost of preparing a single PCAOB Form 1, available data does not allow staff to estimate aggregate PCAOB Form 1-related cost savings.[173]

PCAOB Forms 2 and 3. Staff estimate that 10 firms that would no longer be required to register with the PCAOB under this alternative would collectively save approximately $7,650 to $20,700 in PCAOB Form 2 preparation and filing time, and $5,000 in annual fees.[174] Because PCAOB Form 3 is filed only upon the occurrence of reportable events and the number of filings is likely to fluctuate from year to year, staff are not able to estimate aggregate savings from reduced PCAOB Form 3 filings.[175]

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[173] Staff estimate that preparing PCAOB Form 1 would take approximately three to 15 hours. Based on data collected for inspection year 2025, staff estimate that broker-dealer auditors that audit compliance report filers have average hourly rates ranging from approximately $153 to $207, depending on firm type and broker-dealer type. Applying those hourly rates, staff estimate that the cost of preparing a PCAOB Form 1 would range from approximately $459 to $3,105 per firm.

[174] As of fiscal year end 2025, 29 of the 206 broker-dealer auditors audited compliance report filers. Of these 29 audit firms, 10 did not have issuer clients and therefore would no longer be required to register with the PCAOB. While some of the 10 may remain registered on a voluntary basis (e.g., if they expect to audit or play a substantial role in an audit of an issuer in the future), staff assume for purposes of the analysis in this sub-section that all 10 firms would terminate their registration with the PCAOB if provided the opportunity to do so, so as to present an upper bound on the potential cost savings.

The time required to complete PCAOB Form 2 is estimated to be five to 10 hours for a firm without issuer clients. Based on this estimate, the 10 firms that audited compliance report filers but did not audit issuers would collectively save approximately 50 to 100 hours annually in PCAOB Form 2 preparation time. Based on data collected for inspection year 2025, staff estimate that broker-dealer auditors that audit compliance report filers have average hourly rates ranging from approximately $153 to $207, depending on firm type and broker-dealer type. Applying those hourly rates to the estimated annual time savings, staff estimate that these firms would collectively save approximately $7,650 to $20,700 per year in PCAOB Form 2 preparation costs. Based on the $500 annual fee, the 10 firms would collectively save an estimated $5,000 in annual fees.

[175] As a reference point, broker-dealer auditors without issuer clients filed 11 PCAOB Form 3 filings in 2025.

(b) Reduced Inspection-Related Costs

Under the no-inspections alternative, all firms (including auditors of compliance report filers) would no longer incur inspection-related costs for broker-dealer audit and attestation engagements, including personnel time spent preparing for inspections, interacting with PCAOB inspection staff, and responding to requests for information during and after inspections.

As a reference point, **Exhibit 14** estimates approximately $3.4 million in inspection-related costs associated with compliance report filer engagements inspected under the interim broker-dealer auditor inspection program. Eliminating inspections of compliance report filer engagements would avoid such costs.

Exhibit 14. Estimated Inspection Cost Savings for Compliance Report Filer Engagements

Firm Type	Estimated Personnel Hours per Engagement [1]	Number of Engagements (Compliance Report Filers)[2]	Total Estimated Personnel Hours	Estimated Hourly Rate[3]	Estimated Cost Savings[4]
Firms that Audited Compliance Report Filers (Excluding Auditors of More Than 10 Compliance Report Filers)	149	10	1,488	$207	$307,529
Firms that Audited Compliance Report Filers (Only Auditors of More Than 10 Compliance Report Filers)	1,343	15	20,152	$153	$3,076,052
Total	**-**	**25**	**21,640**	-	**$3,383,581**

Source: PCAOB Compiled Data

Notes:

[1] Estimated based on inspection year 2023 observations.

[2] Number of inspections of compliance report filer engagements in inspection year 2025.

[3] Estimated based on data collected for inspection year 2025.

[4] Total Estimated Personnel Hours are calculated using unrounded Estimated Personnel Hours per Engagement, and Estimated Cost Savings are calculated using unrounded Total Estimated Personnel Hours and Estimated Hourly

Rate. Accordingly, calculations using the displayed values may not produce the Total Estimated Personnel Hours or Estimated Cost Savings.

(c) Reduced Costs Associated with Audit Work and Practice Changes

The no-inspections alternative also could eliminate costs associated with audit work or practice changes that firms undertake in anticipation of, or in response to, PCAOB inspections of compliance report filer engagements. Firms that audit compliance report filers may devote additional resources to audit and attestation procedures, documentation, supervision, training, methodology updates, internal monitoring, or quality-control activities because those engagements are subject to PCAOB inspection.

Cost Savings for Broker-Dealers

(a) Reduced Audit Fees

Under the no-inspections alternative, some of the cost savings realized by audit firms auditing compliance report filers (as discussed in Section IV.C.i.c.1 above) could be passed through to those compliance report filers in the form of lower audit fees. The extent of any pass-through is uncertain and would depend on factors such as competition among broker-dealer auditors, the relative bargaining power of audit firms and broker-dealers, and whether audit firms retain some of the savings.

(b) Reduced Accounting Support Fees

Under the no-inspections alternative, broker-dealers that file compliance reports would no longer be required to pay broker-dealer accounting support fees. In 2025, 133 compliance report filers were assessed accounting support fees totaling approximately $23.5 million. As a reference point, using the aggregate average quarterly tentative net capital for all 746 broker-dealers in the accounting support fee data, this amount represented approximately 0.71 cents per $100 (or 0.0071 percent) of average quarterly tentative net capital.

2. Costs

Eliminating the broker-dealer auditor inspection program would eliminate PCAOB inspection oversight of broker-dealer audit and attestation engagements, including audits of compliance report filers and the related examination engagements. Relative to the proposal, the principal cost of this alternative would be the absence of PCAOB inspections that are expected to promote audit and attestation quality for the compliance report filers, whose customers are more exposed to risks of losing their assets.

Without a broker-dealer auditor inspection program, the PCAOB would no longer review broker-dealer audit and attestation engagements or evaluate firms' systems of quality control as they relate to broker-dealer audit and attestation work. Eliminating the broker-dealer auditor inspection program would also eliminate the firm-specific inspection reports that would be issued under the proposal, thereby reducing the information available to audit firms, broker-

dealers, regulators, and other stakeholders about inspection findings and common deficiencies. Relative to the proposal, these changes could reduce incentives for auditors of compliance report filers to maintain audit and attestation quality and to comply with applicable PCAOB standards and rules.

Any resulting reduction in the reliability of broker-dealer financial and compliance information could increase risks to customers, for example, by impairing the ability of the Commission and DEAs, including FINRA, to identify or address issues involving broker-dealer financial condition, compliance with broker-dealer financial responsibility rules, or handling of customer assets.

The Board recognizes that broker-dealer audit and attestation failures can contribute to significant customer losses in certain circumstances. For example, prior staff analyses of broker-dealer frauds, including events involving Madoff Securities, identified red flags that inspection oversight likely could have detected. However, the Board also recognizes that PCAOB oversight involves significant costs. Thus, the Board considered whether the aggregate benefits of maintaining a broker-dealer auditor inspection program justified its aggregate costs. While those amounts are ultimately not quantifiable, the preceding analysis informed the Board's determination that eliminating the broker-dealer auditor inspection program would not appropriately balance the resulting cost savings discussed above against the expected investor-protection benefits of continued oversight. Therefore, the Board is not proposing to adopt this no-inspections alternative although it would provide broader regulatory relief and greater cost savings than the proposal. Accordingly, the proposal preserves PCAOB inspection oversight for compliance report filer engagements, which present greater potential customer-asset related risk, while providing regulatory relief for exemption report filer engagements.

iii. Key Policy Choices

In developing the proposed permanent inspection program, the Board considered several key policy choices for which reasonable alternatives were available. First, the Board considered the appropriate basis for segmenting broker-dealer engagements and auditors. Second, the Board considered the inspection frequency applicable to firms that audit broker-dealers that file compliance reports. Third, the Board considered the appropriate reporting framework for broker-dealer auditor inspections. The following sub-sections discuss these policy choices and explain why the Board preliminarily believes that the proposed approach appropriately balances investor protection, regulatory costs, administrability, and the efficient allocation of PCAOB inspection resources.

a. Alternative Criteria to Segment Broker-Dealers

The proposed permanent inspection program segments broker-dealers based on whether they maintain custody of customer assets, using compliance-report filing status to identify those broker-dealers. In considering alternative segmentation criteria, the Board evaluated whether each criterion would identify engagements for which PCAOB inspection would be expected to provide greater incremental investor-protection benefits by addressing

customer-asset related risk, and whether the criterion would be administrable. The Board has considered the following broker-dealer characteristics: size, SIPC membership, FINRA membership, types of business activities, ownership, regulatory action disclosures, and whether the broker-dealer is dually registered as an investment adviser. In addition, the Board has considered the following auditor characteristics: number of broker-dealer clients, types of clients, number of broker-dealer audit partners, and historical inspection results.

1. Broker-Dealer Characteristics

The broker-dealer size measures considered by the Board include net capital requirement, net capital, tentative net capital, total assets, revenue, number of registered representatives, number of branch offices, and number of public customer accounts. These measures could serve as segmentation criteria because broker-dealer size may reflect the scale of operations, which may relate to the potential magnitude of investor harm.

However, size alone does not determine the customer-asset related risk presented by a broker-dealer, which is more directly determined by whether a broker-dealer is a compliance report filer. Regardless of broker-dealer size, the audit and related review engagement for an exemption report filer may provide less information regarding customer-asset safeguards than engagements involving compliance report filers. Accordingly, the Board preliminarily believes that size-based criteria may not identify the engagements for which PCAOB inspection would provide the greatest incremental investor-protection benefits.

The Board also considered whether broker-dealers' membership in organizations such as SIPC and FINRA should be used as a criterion to identify engagements for which inspection would be expected to provide greater incremental investor-protection benefits. However, membership in these organizations would not meaningfully segment the broker-dealer market because most broker-dealers are members of FINRA (99 percent),[176] SIPC (94 percent),[177] or both.

The Board also considered whether Commission Form 17-H filing status or self-clearing status could serve as segmentation criteria.[178] Commission Form 17-H filing status would generally capture carrying broker-dealers, subject to certain exemptions, as well as larger non-carrying broker-dealers. However, Commission Form 17-H filing status is designed to capture the financial and operational risks to broker-dealers resulting from the activity of those broker-dealers' affiliates and therefore is less closely aligned with customer-asset related risk than compliance-report filing status. Self-clearing status could identify broker-dealers whose clearing

[176] PCAOB compiled data for fiscal year end 2025.

[177] PCAOB compiled data for fiscal year end 2025.

[178] Exchange Act Rule 17h-2T requires certain broker-dealers to file SEC Form 17-H, which provides the Commission with risk-assessment information concerning certain affiliates of the broker-dealer. *See* 17 C.F.R. § 240.17h-2T, *Risk Assessment Reporting Requirements for Brokers and Dealers*; SEC Form 17-H, Risk Assessment Report for Brokers and Dealers.

and settlement responsibilities may implicate customer-asset safeguards, but would not capture carrying broker-dealers that rely on other firms to clear and settle their transactions. Moreover, using either criterion would require the PCAOB to obtain the necessary data from the SEC.

In addition, the Board considered using the types of business activities broker-dealers are engaged in as a criterion. The Board preliminarily believes that broker-dealers that exclusively engage in certain business activities, such as proprietary trading that does not pose a systemic risk to the market, may pose little customer-asset related risk and warrant an exemption or differential treatment. However, more reliable data would be required for an activity-based segmentation to be administrable.

2. Auditor Characteristics

Because the audit market for broker-dealers is highly concentrated, the Board considered using the number of broker-dealer clients as a criterion to segment auditors and focus PCAOB resources on firms with larger broker-dealer practices. However, this criterion would not necessarily identify the broker-dealer engagements most directly related to customer-asset related risk. By contrast, compliance-report filing status would allow continued PCAOB oversight of audits and attestation engagements for broker-dealers that generally maintain custody of customer assets and therefore present higher risk. Using compliance-report filing status is also less susceptible to strategic behavior by audit firms (such as limiting or restructuring client relationships to avoid falling within the scope of the permanent inspection program) than using the number of broker-dealer clients to determine whether a firm is within the scope of the permanent inspection program. The proposal would continue to use the number of compliance report filer clients to determine inspection frequency for firms within the permanent inspection program, which could create incentives for firms to limit the number of such clients, as discussed in Section IV.C.iii.

In addition, the Board has considered segmenting broker-dealer auditors by whether they have issuer clients. However, the Board's analysis shows that this criterion has ambiguous implications for customer-asset related risk. The criterion of the number of partners responsible for broker-dealer audits has similar disadvantages.

b. Inspection Frequency for Firms That Audit Compliance Report Filers

The Board also considered alternatives to the proposed inspection frequencies for firms that audit compliance report filers. In evaluating this approach, the Board considered whether to establish more frequent or less frequent inspection schedules, and whether to set a higher or lower threshold for annual inspection.

The proposed more-than-10 threshold takes into account the distribution of compliance report filer audit clients across audit firms. As **Exhibit 4** indicates, only four firms exceed the threshold, and they collectively audit 89 compliance report filers, compared with 66 compliance

report filers audited collectively by the remaining 25 firms that audit at least one compliance report filer. The proposed threshold would therefore subject the firms with the greatest concentration of compliance report filer engagements to annual inspection, while maintaining regular triennial inspection for firms with smaller compliance report filer practices.

A lower threshold for annual inspection would bring additional firms into the annual inspection cycle. However, because the additional firms generally audit relatively few compliance report filers, the incremental investor protection benefits may be limited relative to the increase in inspection-related costs. Conversely, a higher threshold, or less frequent inspections, could reduce inspection-related costs and PCAOB resource demands, but would also reduce the regularity of oversight for firms with significant participation in the segment of the broker-dealer market most directly responsible for holding customer assets.

The Board preliminarily believes that the proposed annual and triennial inspection frequencies appropriately balance these considerations. Although the data described above suggests that it is appropriate to apply different inspection frequencies based on the number of compliance report filers audited, it does not identify an optimal frequency for firms below the annual inspection threshold. The proposed triennial schedule would align with the inspection schedule for smaller issuer audit practices. This alignment may facilitate coordination of broker-dealer and issuer inspections for firms subject to both programs, particularly smaller firms, and thereby reduce potentially duplicative inspection-related costs when such coordination is feasible. The proposal is intended to focus inspection resources on the broker-dealer engagements for which inspection oversight is expected to provide the greatest marginal investor-protection benefit, while limiting unnecessary inspection-related costs for firms with smaller compliance report filer practices.

Moreover, because the proposal would require inspection "at least" once every three years, consistent with the Board's existing inspection framework for issuer auditors, the PCAOB could inspect a firm more frequently when warranted based on its particular facts and circumstances. In determining whether more frequent inspection is appropriate, the PCAOB may consider a variety of factors, including the nature and complexity of a firm's broker-dealer practice, changes in that practice over time, inspection observations, risks associated with particular engagements, or other relevant circumstances. Accordingly, while the proposed thresholds establish a minimum inspection frequency, they would not limit the PCAOB's ability to conduct inspections on a more frequent basis when appropriate.

c. Reporting Framework for Broker-Dealer Auditor Inspection Reports

The Board also considered alternatives to the proposed reporting framework of individual, firm-specific inspection reports for broker-dealer auditor inspections. Under the interim inspection program, the Board has issued collective, anonymized annual reports. The Board considered whether to retain that approach in the permanent inspection program.

Retaining collective, anonymized reporting could reduce reporting-related costs for inspected firms and the PCAOB. A collective report can identify recurring issues across the

broker-dealer auditor inspection program and provide general information to auditors, broker-dealers, regulators, and other stakeholders about common deficiencies observed in inspections. However, collective reporting does not create the same firm-level accountability, remediation incentives, or reputational incentives as firm-specific inspection reporting. The persistence of deficiencies observed under the interim inspection program suggests that collective reporting alone may not provide sufficient incentives for firms to improve audit and attestation quality.

The Board preliminarily believes that firm-specific inspection reporting is preferable for the permanent inspection program. While firm-specific reporting may impose additional costs on inspected firms, including costs associated with responding to inspection findings and addressing quality-control criticisms, the Board preliminarily believes that those costs are justified by the expected benefits of greater transparency, accountability, and remediation incentives.

Questions:

45. Does the analysis above appropriately describe the benefits and costs of the alternatives considered? If not, what additional information or clarification would be helpful?
46. Does the proposed use of compliance report filing status appropriately identify the broker-dealer audit and attestation engagements that should be included within the scope of the permanent inspection program? If not, what alternative or additional criteria should the Board consider?
47. Should the Board include within the scope of the permanent inspection program audits and attestation engagements of exemption report filers that meet other criteria, such as broker-dealers that (i) have more than $500 million in tentative net capital, (ii) are required to file Commission Form 17-H, (iii) self-clear transactions, or (iv) have a specified number of customers or registered representatives?[179] For illustrative purposes, as of fiscal year end 2025, 23 exemption report filers have more than $500 million in tentative net capital, and 42 exemption report filers have more than 500 registered representatives. What risks, for example, risks to customers or to financial market participants more broadly, would these criteria identify? How would including the affected engagements within PCAOB inspection oversight mitigate those risks? How would the resulting benefits compare with the costs of PCAOB oversight?
48. Are any alternative approaches, including alternative inspection frequencies, preferable to the proposed approach? If so, please describe those approaches.
49. Are there additional studies or data that would inform the analysis of alternatives considered? If so, please provide such studies or data.

[179] Tentative net capital is reported on FOCUS Report Part II, line 3640, and represents net capital before applying securities haircuts. *See* Commission Form X-17A-5, FOCUS Report Part II, Computation of Net Capital, line 8, "Tentative net capital (net capital before haircuts)," line 3640.

V. SPECIAL CONSIDERATIONS FOR AUDITS OF EMERGING GROWTH COMPANIES

The proposal does not impose any additional requirements on audits of emerging growth companies ("EGCs"), as defined in Section 3(a)(80) of the Exchange Act. Accordingly, the Board believes that Section 103(a)(3)(C) of the Act does not apply. Nevertheless, the Board is including this analysis to inform the rulemaking.[180]

The proposal concerns the scope and administration of the PCAOB's broker-dealer auditor inspection program, rather than issuer audit requirements. It therefore does not impose additional audit performance, attestation, or reporting requirements on audits of EGCs.

Based on information from the interim inspection program, staff have not identified any broker-dealers that filed audited financial statements and self-identified as EGCs. To the extent a broker-dealer were also an issuer that qualifies as an EGC, the proposal would not change the requirements that apply to its audit as an EGC issuer. Any effect would instead come through the broker-dealer auditor inspection program. Depending on whether the broker-dealer filed a compliance report or an exemption report, its broker-dealer audit and related attestation engagement would be affected by the costs and benefits of focusing inspection oversight on compliance report filer engagements, as discussed above.

In addition to considering whether any broker-dealers are themselves EGCs, staff also considered whether the proposal could affect EGCs indirectly through their ownership of broker-dealers. As of December 31, 2025, staff identified only two broker-dealers (one compliance report filer and one exemption report filer) that filed audited financial statements and were owned by parent companies that were issuers and claimed EGC status for that fiscal year. This limited overlap suggests that the proposal would have little, if any, effect on EGCs through broker-dealer ownership structures. Any effect on the parent company would be indirect and would depend on the broker-dealer subsidiary's filing status, the costs or cost savings associated with that subsidiary's audit and related attestation engagement, and whether those effects flow through to the parent company.

Accordingly, the Board does not expect the proposal to impose incremental costs on EGCs or their auditors in connection with audits of EGCs as issuers. Any economic effects on EGCs would arise, if at all, through the broker-dealer auditor inspection program and would be indirect. Because the proposal would not change the requirements applicable to EGC audits as

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[180] Sarbanes-Oxley Section 103(a)(3)(C), as added by Section 104 of the Jumpstart Our Business Startups ("JOBS") Act, generally provides that rules adopted by the Board after April 5, 2012, do not apply to audits of EGCs, unless the SEC "determines that the application of such additional 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." As a result, when the Board adopts a rule that imposes additional requirements on EGC audits, the SEC generally makes a separate determination about whether those requirements should apply to EGC audits.

issuer audits, the Board does not expect the proposal to adversely affect efficiency, competition, or capital formation with respect to EGCs.

If the SEC determines that any aspect of the proposal applies to audits of EGCs within the meaning of Sarbanes-Oxley Section 103(a)(3)(C), the Board preliminarily believes that such application would be necessary or appropriate in the public interest, after considering the protection of investors and whether the action would promote efficiency, competition, and capital formation.

Questions:

50. Would the proposed amendments have any effects on efficiency, competition, or capital formation with respect to EGCs that are not discussed above? If so, please provide relevant data or analysis.

VI. EFFECTIVE DATE

We propose to make the inspection requirements for all scoped-in auditors of broker-dealers effective December 15, 2027. The Board believes this implementation period would provide sufficient time for the Board to undertake the administrative and operational steps necessary to implement the amendments and would provide registered public accounting firms and their broker-dealer clients adequate time to prepare for and adapt to the changes resulting from the amendments. Until the effective date of the amendments, inspections of auditors of broker-dealers would continue to be conducted pursuant to the existing interim inspection program under Rule 4020T, which would be repealed upon the effectiveness of the permanent inspection program. The effectiveness of the amendments would not affect inspections commenced under the interim inspection program prior to the effective date. The Board may continue to make adjustments to its inspection activities and areas of focus during that period as appropriate.

Questions:

51. Is the proposed effective date appropriate? If not, what alternative effective date would be more appropriate and why? In responding, commenters are encouraged to discuss the time that would be required for registered public accounting firms, broker-dealers, and other stakeholders to prepare for and implement the proposed requirements.

VII. OPPORTUNITY FOR PUBLIC COMMENT

The Board is seeking comments on all aspects of its proposal. Among other things, the Board is seeking comment on the economic considerations relating to its proposal, including potential costs. To assist the Board in evaluating such matters, the Board is requesting relevant information and empirical data regarding the proposed amendments.

Comments may be submitted by e-mail to comments@pcaobus.org or through the Board's website at www.pcaobus.org. Comments also may be submitted to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803. All comments should refer to PCAOB Rulemaking Docket Matter No. 059 in the subject or reference line and should be received by the Board by January 19, 2027.

The Board will consider all comments received. After the close of the comment period, the Board will determine whether to adopt final rules, with or without changes from the proposal. Any such final rules adopted will be submitted to the Commission for approval. Pursuant to Section 107 of Sarbanes-Oxley, proposed rules of the Board do not take effect unless approved by the Commission.

* * *

On the 19th day of November, in the year 2026, 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

November 19, 2026

APPENDIX 1 – PROPOSED RULE AMENDMENTS

The Board proposes to amend Sections 2, 4, and 7 of its rules as set out below. Language that would be deleted by the proposed amendments is ~~struck through~~. Language that would be added by the proposed amendments is **underlined** and **bolded**. Sections of existing form text that are omitted because there are no changes are indicated by * * *.

RULES OF THE BOARD

SECTION 2. REGISTRATION AND REPORTING

Rule 2100. Registration Requirements for Public Accounting Firms.

(a) Each public accounting firm that –

(1) ~~(a)~~ prepares or issues any audit report with respect to any issuer **or with respect to any compliance report filer (as defined in Rule 4013(a)(2))**; or

(2) ~~(b)~~ plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer **or with respect to any compliance report filer (as defined in Rule 4013(a)(2))**

must be registered with the Board.

* * *

SECTION 4. INSPECTIONS

Rule 4000. General

(a) Every registered public accounting firm shall be subject to all such regular and special inspections as the Board may from time-to-time conduct in order to assess the degree of compliance of each registered public accounting firm and associated persons of that firm with the Act, the Board's rules, the rules of the Commission, and professional standards, in connection with its performance of audits, issuance of audit reports, and related matters involving issuers **and compliance report filers (as defined in Rule 4013(a)(2)).**

* * *

Rule 4003. Frequency of Inspections

* * *

~~(d) Notwithstanding paragraph (b) of this Rule, with respect to any registered public accounting firm that became registered in 2003 or 2004 –~~

~~(1) this Rule does not require the first inspection of the firm sooner than the fourth calendar year following the first calendar year in which the firm, while registered, issued an audit report with respect to an issuer; and~~

~~(2) this Rule does not require the second inspection of the firm sooner than the fifth calendar year following the first calendar year in which the firm, while registered, issued an audit report with respect to an issuer.~~

(~~e~~**d**) * * *

* * *

~~(f) With respect to any foreign registered public accounting firm concerning which the preceding provisions of this Rule would set a 2008 deadline for the first Board inspection, such deadline is extended to 2009.~~

~~(g) With respect to any foreign registered public accounting firm concerning which the preceding provisions of this Rule, other than paragraphs (a) and (f), would set a 2009 deadline for the first Board inspection and that is headquartered in a country in which no foreign registered public accounting firm that the Board inspected before 2009 is headquartered, such deadline is extended to 2012, provided, however, that from among the group of all such firms, the Board shall conduct some first inspections in each of the years from 2009 to 2012, scheduled according to such criteria as the Board shall publicly announce.~~

(~~h~~**e**) In each calendar year, the Board shall conduct regular inspections of some registered public accounting firms that reported on an annual report on Form 2 having played a substantial role in the preparation or furnishing of an audit report with respect to an issuer **or with respect**

to a compliance report filer (as defined in Rule 4013(a)(2)) in any of the four most recent annual reporting periods through March 31 of that calendar year without having reported on an annual report on Form 2 having issued an audit report with respect to an issuer **or with respect to a compliance report filer** in any of those reporting periods. The number of such registered public accounting firms that the Board shall inspect in any particular calendar year shall be at least five percent of the **combined** number of registered public accounting firms that, by June 30 of the preceding calendar year, reported on an annual report on Form 2 for the reporting period ending on March 31 of the preceding calendar year having played a substantial role in the preparation or furnishing of an audit report with respect to an issuer **or with respect to a compliance report filer** without having issued an audit report with respect to an issuer **or with respect to a compliance report filer** in that reporting period.

* * *

Rule 4013. Inspection Program Related to Broker-Dealer Audits and Related Engagements

(a) Definitions

For purposes of this Rule, in reference to a broker or dealer with respect to which a registered public accounting firm (i) prepared or issued an audit report or (ii) played a substantial role in the preparation or furnishing of an audit report–

(1) the term "FOCUS Report" means a Financial and Operational Combined Uniform Single Report on Part II or Part IIA of Commission Form X-17A-5, as applicable;

(2) the term "compliance report filer" means an entity that, with respect to the most recent fiscal year that the audit report addressed, filed a compliance report pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*1*);

(3) the term "compliance report" means a report required by and filed pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*1*);

(4) the term "exemption report filer" means an entity that, with respect to the most recent fiscal year that the audit report addressed, filed an exemption report pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*2*);

(5) the term "exemption report" means a report required by and filed pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*2*).

Note 1: For the avoidance of doubt, a broker or dealer that filed neither a compliance report pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*1*) nor an exemption report pursuant to 17 C.F.R. § 240.17a-5(d)(1)(i)(B)(*2*) shall be treated as:

(A) a compliance report filer if, for any period ended during the most recent fiscal year that the audit report addressed, it filed a FOCUS Report in which it did not identify a basis for exemption from 17 C.F.R. § 240.15c3-3; or

(B) an exemption report filer if, for all periods ended during the most recent fiscal year that the audit report addressed, it filed FOCUS Reports in each of which it identified a basis for exemption from 17 C.F.R. § 240.15c3-3.

Note 2: Notwithstanding Rule 4013(a)(4), if a broker or dealer filed both a compliance report and an exemption report with respect to the same fiscal year, the broker or dealer shall be considered a compliance report filer for purposes of this Rule.

(b) Scope of Inspections

An inspection under this Rule shall include review of a registered public accounting firm's compliance with the Act, the Board's rules, the rules of the Commission, and professional standards, in connection with the firm's performance of audits, issuance of audit reports, performance of examination engagements concerning compliance reports, issuance of examination reports, and related matters involving compliance report filers, as applicable.

(c) Frequency of Inspection

(1) During each calendar year, beginning no later than the calendar year following the calendar year in which its application for registration with the Board is approved, a registered public accounting firm that, during the prior calendar year, issued audit reports with respect to more than 10 compliance report filers shall be subject to a regular inspection.

(2) At least once in every three calendar years, beginning with the three-year period following the calendar year in which its application for registration with the Board is approved, a registered public accounting firm that, during any of the three prior calendar years, issued an audit report with respect to at least one, but no more than 10, compliance report filers shall be subject to a regular inspection.

(3) Notwithstanding any other provision of this Rule, if, in two consecutive calendar years, a registered public accounting firm issues no audit report with respect to a compliance report filer, the Board shall have the discretion to forego any inspection of that firm that would otherwise be required because of any audit report that the firm had issued with respect to a compliance report filer prior to such calendar years.

Note 1: Inspection frequency for registered public accounting firms that play a substantial role in the preparation or furnishing of audit reports with respect to compliance report filers is governed by Rule 4003(e).

Note 2: For purposes of paragraph (c)(1), audit reports issued during the calendar year in which a firm's application for registration is approved are taken into account in determining whether the firm is subject to inspection in the following calendar year.

Note 3: For purposes of this paragraph, in determining the number of compliance report filers with respect to which a registered public accounting firm has issued audit reports during any period, the firm shall not be treated as having issued an audit report solely

because it consented to a compliance report filer's use of a previously issued audit report.

(d) Exemption from Inspection Program Related to Audits of Brokers and Dealers.

(1) A registered public accounting firm that, during the prior calendar year, issued one or more audit report(s) or played a substantial role in the preparation or furnishing of one or more audit report(s) with respect to any exemption report filer(s), but did not issue one or more audit report(s) or play a substantial role in the preparation or furnishing of one or more audit report(s) with respect to any compliance report filer, shall not be subject to an inspection under this Rule, and is exempt from the inspection program set forth under this Rule, except to the extent the firm remains subject to an inspection requirement under Note 2 to this section.

(2) With respect to a registered public accounting firm that is otherwise subject to inspection, audits and related attestation engagements of exemption report filers shall not be included in the population of engagements subject to inspection.

Note 1: Absent another basis requiring registration, a public accounting firm that is exempt from the inspection program related to audits of brokers and dealers pursuant to Section 104(a)(2)(D) of the Act is not required to register with the Board.

Note 2: For the avoidance of doubt, a registered public accounting firm that becomes subject to an inspection requirement under paragraph (c)(1) or (c)(2) shall remain subject to that inspection requirement until the inspection is completed or the requirement is otherwise satisfied under paragraph (c)(3), notwithstanding any subsequent change in the nature of the firm's broker or dealer audit activities. Paragraph (d)(1) shall not operate to relieve the firm of any inspection obligation that arose before such change.

(e) Reporting

A written report of the findings of the Board for each inspection under this Rule shall be issued subject to Rules 4007, 4008, and 4009.

(f) Withdrawal

With respect to a registered public accounting firm that has filed a completed Form 1-WD under Rule 2107, the Board shall have the discretion to forego any regular inspection that would otherwise commence during the period beginning on the date of Board receipt of a completed Form 1-WD and continuing until the firm's registration is deemed withdrawn or the firm withdraws the Form 1-WD.

* * *

Rule 7102. Allocation of Broker-Dealer Accounting Support Fee

(a) Classes of Brokers and Dealers

For purposes of allocating the broker-dealer accounting support fee, those entities that are brokers or dealers **that are compliance report filers as defined in Rule 4013(a)(2)** as of the date the broker-dealer accounting support fee is calculated shall be divided into two classes:

(1) Brokers and Dealers with Average, Quarterly Tentative Net Capital Greater than $5 million

All brokers and dealers whose average, quarterly tentative net capital is greater than $5 million during the calendar year preceding the date the broker-dealer accounting support fee is calculated, other than those described in paragraph**s** (a)(2) of this Rule.

Note: Average, quarterly tentative net capital will be based on the tentative net capital reported by the broker or dealer in the calendar quarterly reports filed pursuant to Commission rules during the calendar year preceding the date the broker-dealer accounting support fee is calculated.

(2) Brokers and Dealers Permitted Not to File Audited Financial Statements and Brokers and Dealers Not Described in Paragraph (a)(1) of This Rule

All brokers and dealers that, as of the date the broker-dealer accounting support fee is calculated, (i) have a basis, under the federal securities laws, a Commission rule, or pursuant to

other action of the Commission or its staff, not to file audited financial statements or (ii) are not described in paragraph (a)(1) of this Rule.

* * *

~~**Rule 4020T. Interim Inspection Program Related to Audits of Brokers and Dealers**~~

~~(a) Purposes of Interim Inspection Program~~

~~This rule provides for an interim program of inspection in connection with audits of brokers and dealers in order, among other things –~~

~~(1) to assess the degree of compliance of registered public accounting firms and their associated persons with the Act, the Board's rules, the Commission's rules, and professional standards in connection with the performance of audits, issuance of audit reports, and related matters involving brokers and dealers;~~

~~(2) to inform the Board's consideration, in connection with establishing a permanent program of inspection to assess the matters described in paragraph (1), of –~~

~~(i) whether to differentiate among classes of brokers and dealers;~~

~~(ii) whether to exempt any category of public accounting firms; and~~

~~(iii) the establishment of minimum inspection frequency schedules.~~

~~(b) Definitions~~

~~When used in this rule, the term "interim program," means the interim program of inspection described in paragraph (c).~~

~~(c) Interim Program of Inspection~~

~~On an interim basis, the Board shall conduct a program of inspection, for the purposes described in paragraph (a), that may include inspection procedures to assess the policies, practices, and procedures of any registered public accounting firm related to the performance of audits or the issuance of audit reports for any broker or dealer after July 21, 2010 and related matters involving brokers and dealers. The provisions of Rules 4000(b), 4000(c), 4004, 4006, 4007, 4008, 4009 and 4010 shall apply to the interim program.~~

~~(d) Reporting~~

~~No less frequently than every twelve months, beginning twelve months after the date this rule takes effect and continuing until rules for a permanent program of inspection in connection with audits of brokers and dealers take effect, the Board will publish a report that describes the progress of the interim program, including data about the number of registered public accounting~~

~~firms and the number of broker or dealer audits that have been subjected to inspection procedures and any significant observations from those procedures.~~