

## **Reviewed Firm Alert Enhanced Peer Review of Auditors of Broker-Dealers**

The PCAOB recently announced a proposal for an interim broker-dealer inspection program. Under the proposal, the PCAOB will inspect, over the next two years, all types of broker-dealers (BDs) to determine what auditing standards are needed and what the scope should be for the permanent inspection program. To address the current risks of peer review and public interest in regards to the audits of BDs, the Peer Review Board enacted guidance that clarifies during this interim period, BDs remain in the scope of the Peer Review Program and specifically stipulates that carrying BDs, which are identified as the highest risk, be included as “must-select” engagements. Firms that have peer reviews that will commence during 2011 and 2012 will be most impacted by the information in this alert. When the PCAOB permanent program scope is announced, the peer review procedures will be reassessed.

Currently, background forms do not categorize broker-dealers as carrying or non-carrying. The background form cover letter has been revised requesting you to manually indicate carrying or non-carrying broker-dealers. The industry codes that are included are 135 Brokers and Dealers in Securities and 140 Brokers and Dealers in Commodities. If you do not manually indicate carrying vs. non-carrying, in order for your administering entity (AE) to determine if your review team has the appropriate experience to perform the review, they will be contacting you to determine the type(s) of BD audits you perform. If you perform audits of carrying broker-dealers, your review team must have a member that has experience with carrying broker-dealers. If you only perform audits of non-carrying broker-dealers, your review team may have a member that has either carrying or non-carrying experience.

For purposes of peer review, carrying broker-dealers include all broker-dealers that clear customer transactions, carry customer accounts or hold custody of customer cash or securities. Examples of carrying broker-dealers include (a) clearing broker-dealers who receive and execute customer instructions, prepare trade confirmations, settle the money related to customer trades and arrange for the book entry (or physical movement) of the securities and (b) carrying broker-dealers that hold customer accounts or clear customer trades for introducing broker-dealers. Non-carrying broker-dealers are those broker-dealers that do not clear customer transactions, carry customer accounts, or hold custody of customer cash or securities. Examples of non-carrying broker-dealers are (a) introducing broker-dealers that introduce transactions and accounts of customers or other broker-dealers to another registered broker-dealer that carries such accounts on a fully disclosed basis, and who does not receive or hold customer or other broker-dealers securities and (b) a broker-dealer whose business does not involve customer accounts, such as proprietary trading firms, investment banking firms, and firm’s that sell interest in mutual funds or insurance products.

**If you already scheduled your review and you audit BDs, if your AE has not already contacted you, please contact them to ensure that your review team is appropriately qualified.** If you have any questions about whether the firms you audit are considered carrying or non-carrying BDs, contact the technical hotline. If you have not already scheduled your review, please indicate on the background form whether you perform audits of carrying or non-carrying broker-dealers.

In addition to being contacted by the AE to determine the type of BD audits that you perform, you should be prepared to discuss the results of any PCAOB inspections, regardless of whether they issue you a formal report. The peer reviewers will need to understand the scope of the PCAOB inspection, where the PCAOB had findings and where they did not, and the nature of any remediation.

If you have any questions regarding the impact of the revised broker-dealer guidance on your peer review, please contact the AICPA Peer Review technical hotline at [prptechnical@aicpa.org](mailto:prptechnical@aicpa.org) or (919) 402-4502, option 3.