

September 12, 2011

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 35

McGladrey & Pullen, LLP appreciates the opportunity to offer our comments on the PCAOB's *Proposed 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*. We generally support the PCAOB's proposed standards for attestation engagements related to broker and dealer compliance and exemption reports. However, we ask the Board to consider the following suggestions related to specific aspects of these proposed standards. In addition, with respect to financial statement audits of broker-dealers, we offer one specific comment on the PCAOB's *Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards*.

## **PCAOB Rulemaking Docket Matter No. 35**

### **Appendix 1 – Proposed Attestation Standard, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers***

#### **Overview**

In the overview of the proposed attestation standard on examination engagements regarding compliance reports, the Board states that the proposed examination standard provides procedural requirements for auditors that are designed to be scalable based on the broker's or dealer's size and complexity. It would be helpful if the Board would provide additional guidance, including specific examples, regarding the application of scalability to these examination engagements.

#### **Objective**

We re-affirm our August 26, 2011 comment letter to the SEC regarding broker-dealer reports. In that letter we stated that the requirement for a broker-dealer to assert whether its internal control over compliance with the Financial Responsibility Rules was effective during the most recent fiscal year (such that there were no instances of material weaknesses) appears to hold broker-dealers to a higher standard than issuers subject to the Sarbanes-Oxley Act requirements related to internal control over financial reporting. We suggest that a broker-dealer's assertion regarding whether its internal control over compliance with the Financial Responsibility Rules was effective be made only as of the end of the fiscal year consistent with existing practice and PCAOB standards for issuers subject to audits of ICFR.

#### **Consideration of Materiality in the Examination Engagement**

Paragraph 9 of the proposed attestation standard for examination engagements regarding compliance reports requires the auditor to plan and perform examination procedures to detect instances of non-compliance that, individually or in combination, would result in material non-compliance. It would be helpful if the PCAOB would provide additional guidance related to the determination of material non-compliance, including where possible, specific examples regarding the consideration of qualitative and quantitative factors in the context of each of the Financial Responsibility Rules, and matters within each of the Financial Responsibility Rules that the PCAOB considers to be most significant to compliance.

### **Appendix A – Examination Report Modifications**

Paragraphs A1 and A2 of Appendix A to the proposed attestation standard on examination engagements discuss situations in which reports should be modified. It would be helpful if the proposed standard included specific examples of report modifications.

### **Appendix 3 – Proposed Amendments to PCAOB Standards – Auditing Standards**

#### ***Auditing Standard No. 7, “Engagement Quality Review”***

The Board is proposing certain amendments to Auditing Standard No. 7, *Engagement Quality Review*, which would require an engagement quality review and concurring approval of issuance for examination engagements and review engagements of brokers and dealers. This requirement, by definition, would be applicable to both carrying broker-dealers that file a Compliance Report and non-carrying broker-dealers that are exempt from the Compliance Report requirement and file an Exemption Report. Also, the requirement would be applicable to financial statement audits of broker-dealers.

Broker-dealers that meet the identified SEC conditions for the Exemption Report are typically much smaller entities with relatively simple financial reporting and internal control systems. Accordingly, the audit risks are also less. Requiring an engagement quality review for engagements for these non-carrying broker-dealers seems excessively onerous and would present additional costs that may not be commensurate with the related benefits.

We acknowledge there are several broker-dealers that conduct proprietary trading, yet are still able to submit an Exemption Report. We suggest the engagement quality review requirement only apply to entities that (a) are required to submit Compliance Reports, as defined, with the SEC, or (b) conduct proprietary trading. This would use a more risk-based approach for the engagement quality review requirement and would scale the requirement based on the broker or dealer's size and complexity.

#### ***Effective Dates***

We agree that the proposed attestation standards should be effective for fiscal years ending on or after September 15, 2012, as this will allow sufficient time for brokers and dealers and their auditors to adopt the provisions of the proposed standards.

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Paragraph I.F. of Appendix 3 in the PCAOB's *Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards* states "...if the auditor's report was qualified because of a material departure from GAAP related to a particular account or disclosure, the auditor's report on the supplemental information related to that account also would require qualification." There are several instances where an account or disclosure may be materially misstated or not in compliance with GAAP, yet there may be no effect on the supplemental information. Examples include misstatements to assets that are considered non-allowable for net capital purposes or certain deferred liabilities. Therefore, we suggest that the words "also would require qualification" be changed to "may require qualification."

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to John Hague, National Director of Alternative Investments and Brokerage Groups, at 312-634-3354.

Sincerely,



McGladrey & Pullen, LLP