

**Fact Sheet – Proposed Funding Rules  
For Brokers and Dealers**

1. Recent Statutory Amendments

Section 109 of the Sarbanes-Oxley Act, as amended by section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, provides for two sources of outside funding for the Board –

- Registration and annual fees from public accounting firms – These fees are not part of this rulemaking proceeding (see sections 102(f) and 109(c)(1); PCAOB Rule 2103)
- An annual accounting support fee –
  - Under the Sarbanes-Oxley Act, the accounting support fee initially was allocated only to issuers. The Dodd-Frank Act assigned the Board the additional responsibility to oversee the audits of brokers and dealers and, accordingly, provided for the Board to allocate the accounting support fee equitably among not only issuers but also brokers and dealers (see section 109(d))
  - The Board may establish different classes of issuers and of brokers and dealers for funding purposes (sections 109(g) and 109(h)(2))

2. Brokers and Dealers

Section 109 states that the Board shall begin the allocation of the accounting support fee among brokers and dealers in the Board's first full fiscal year after date of enactment of the Dodd-Frank Act, which is 2011 (see section 109(d)(3))

The law further states that the amount due from a broker or dealer shall be in proportion to the net capital of the broker or dealer (before or after any adjustments), compared to the total net capital of all brokers and dealers (before or after any adjustments), in accordance with the rules of the Board (see section 109(h)(3))

- The Board is proposing that the fee be based on "tentative net capital," which under the SEC's Rules is net capital before deducting certain securities haircuts and charges for certain commodities transactions (see SEC Rule 15c3-1(c)(15)). Because those deductions depend on types of investments and transactions the broker or dealer may elect to enter during the period, tentative net capital is considered to be a more consistent measure than net capital.

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- Both tentative net capital and net capital are reported on brokers' and dealers' FOCUS reports.
- Tentative net capital is not spread evenly among all brokers and dealers. Approximately 4,600 brokers and dealers are registered with the Financial Industry Regulatory Authority (additional brokers and dealers are registered with the Commission but have other designated examining authorities; audits of these brokers and dealers also are subject to oversight by the Board). Approximately 86% of FINRA brokers and dealers have tentative net capital of less than \$5 million. Combined, these brokers and dealers hold only approximately 1.1% of the industry's total tentative net capital. The remaining 14% of brokers and dealers hold the other 98.9% of the industry's tentative net capital, with only about 33 FINRA brokers and dealers holding approximately 80% of the tentative net capital held by all FINRA brokers and dealers.
- This concentration of the industry's aggregate tentative net capital in a relatively few brokers and dealers, combined with the statutory requirement that the accounting support fee be proportioned among brokers and dealers based on their relative net capital (before or after any adjustments), results in many smaller brokers and dealers being allocated small amounts of the accounting support fee. In fact, thousands of brokers and dealers, due to the Board's rounding rules, would be allocated shares of the accounting support fee equal to zero.
  - In that regard, because of the administrative burden that would be imposed on smaller brokers and dealers as compared to the relatively small fees that would be collected by the Board, the Board has proposed that a class of brokers and dealers, each with tentative net capital less than \$5 million, be allocated a share of zero. It is anticipated that establishing this class should have a negligible effect on the shares of the accounting support fee paid by larger brokers and dealers.
  - Under this approach, about 640 of 4,600 FINRA brokers and dealers would pay a share of the accounting support fee.

**3. Issuers**

The Board also is proposing to revise its funding rules related the accounting support fee paid by issuers.

Based on experiences from eight annual funding cycles, the Board proposes to –

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- Change the basis for calculating the issuer accounting support fee from the relative market value of all classes of an issuer's "common stock" that trade in the United States to the relative market value of all classes of an issuer's voting and non-voting "common equity" securities that trade in the United States. This change would make the Board's funding rules more consistent with SEC rules and reduce the need for PCAOB staff interpretations regarding whether various categories of equity securities fit within the definition of "common stock."
- Change the descriptions of various classes of issuers for funding purposes to –
  - Raise the market capitalization threshold from \$25 million to \$75 million for issuers (other than investment companies) to be assigned a share of the accounting support fee equal to zero. One thousand one hundred (1,100) issuers with market capitalizations between \$25 million and \$75 million market capitalization as a group currently pay only approximately 0.4% of the Board's total accounting support fee. The administrative burden placed on such issuers appears disproportionate to the fees paid. In addition, not allocating a share of the fee to these issuers should have a negligible effect on the amounts allocated to other issuers.
  - Raise the market capitalization, or net asset value, threshold from \$250 million to \$500 million for investment companies to be assigned a share of the accounting support fee equal to zero. One thousand four hundred eighty (1,480) investment companies in this range as a group currently pay only approximately 5% of the total accounting support fee from investment companies. As with the smaller issuers discussed above, the administrative burden placed on such investment companies appears disproportionate to the fees paid. In addition, not allocating a share of the fee to these investment companies should have a negligible effect on the amounts allocated to other investment companies.
  - Require an issuer claiming to be within a class assigned a share of the support fee equal to zero because it is within the jurisdiction of a bankruptcy court and is entitled to file with the Commission modified reports under the Securities Exchange Act of 1934, to obtain an opinion of counsel that the issuer meets the conditions set forth in SEC Staff Legal Bulletin No. 2 (April 15, 1997) for filing such modified reports.

4. Comments are due to the PCAOB by no later than February 15, 2011.

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