
SEC Issues Concept Release on Possible Revisions to Audit Committee Disclosures

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On July 1, 2015, the Securities and Exchange Commission issued its long-anticipated concept release on [Possible Revisions to Audit Committee Disclosures](#). (See our prior post [about the concept release](#).) The concept release notes the important function of the public company audit committee and points out that disclosure requirements for audit committees, which are principally contained in Item 407 of Regulation S-K, have not changed substantially since 1999. The release observes that “some have expressed a view” that the current disclosure rules do not provide sufficient information regarding the role of and responsibilities carried out by the audit committee. It states that additional disclosures “may provide useful information to investors as they evaluate the audit committee’s performance in connection with, among other things, their vote for or against directors who are members of the audit committee, the ratification of the auditor, or their investment decisions.”

The concept release asks for public comment on a wide range of topics relating to the audit committee’s oversight of the independent auditor and other matters. The topics identified by the SEC for possible additional disclosures include:

- Audit committee’s oversight of the auditor:
 - Communications between the audit committee and the auditor
 - Frequency with which the audit committee met with the auditor
 - Review and discussion about the auditor’s internal quality review and most recent PCAOB inspection report
 - Whether and how the audit committee assesses, promotes and reinforces the auditor’s objectivity and professional skepticism
- Audit committee’s process for appointing or retaining the auditor:
 - How the audit committee assessed the auditor, and the audit committee’s rationale for selecting or retaining the auditor
 - If the audit committee sought proposals for the audit, the process undertaken by the committee to seek proposals and the factors it considered in selecting the

auditor

- Board of directors' policies regarding an annual shareholder vote on selection of the auditor

— Qualifications of the audit firm and members of the engagement team:

- Disclosures of certain individuals on the engagement team
- Audit committee input in selecting the engagement partner
- Auditor tenure
- Other firms involved in the audit

The SEC's review of audit committee disclosures seems appropriate given how the role of the audit committee has evolved since adoption of the current rules in 1999. Many companies already have voluntarily expanded their disclosures. (See our prior posts on this subject from: [November 26, 2013](#); [March 3, 2014](#); and [October 14, 2014](#).) However, some areas for possible additional disclosures identified in the release—such as disclosures regarding the substance of the audit committee's communications with the auditor—are likely to be controversial. Other areas—such as identification of the engagement partner, other auditor participants, and auditor tenure—have been the subject of rulemaking by the Public Company Accounting Oversight Board, though the Board has not yet adopted any such rules.

The comment period runs through September 8. It is difficult to predict whether, when and to what extent the SEC will move forward with specific rule proposals regarding audit committee disclosure. Any such rules would be subject to additional administrative procedures, including a notice of proposed rulemaking, additional opportunity for comment, and adoption of final rules.

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