



CAQ Alert #2010-36 – June 29, 2010

DEAR CENTER MEMBERS

[Supreme Court Issues its Decision in the Constitutional Lawsuit Challenging the PCAOB](#)

On June 28, 2010, the U.S. Supreme Court (or the Court) [issued](#) its decision in the lawsuit challenging the constitutionality of the PCAOB (or the Board). In its decision, the Supreme Court held that the [Sarbanes-Oxley Act's](#) provisions making PCAOB Board members removable by the SEC (or the Commission) only for good cause were inconsistent with the Constitution's separation of powers, but found that the provision was severable from the remainder of the Sarbanes-Oxley Act. The consequence of the Court's decision is that PCAOB Board members will be removable by the SEC at will, rather than only for good cause. All other aspects of the SEC's oversight, the structure of the PCAOB and its programs are otherwise unaffected by the Court's decision and therefore all PCAOB programs will continue to operate as usual, including registration, inspection, enforcement, and standard-setting activities.

The following statements were made in response to the Supreme Court's decision ruling:

- [SEC Chairman, Mary L. Schapiro](#)

"I am pleased that the Court has determined that the Board's operations may continue and the Sarbanes-Oxley Act, with the Board's tenure restrictions excised, remains fully in effect. The PCAOB is a cornerstone of the Sarbanes-Oxley Act and serves a critical role in promoting investor protection and audit quality. We look forward to continuing to work with the Board in connection with its mission to oversee auditors in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports."

- [SEC Chief Accountant, James L. Kroeker](#)

"It is important to understand that the PCAOB's auditing standards, as approved by the Commission, continue to apply. Audit firms are required to be registered with the PCAOB and they remain subject to inspections."

- [PCAOB Acting Chairman, Daniel L. Goelzer](#)

"We are pleased that the decision allows the PCAOB to continue without interruption to carry out its important mission of overseeing public company audits in order to protect investors and promote the public interest."

- [CAQ Executive Director, Cindy Fornelli](#)

"The CAQ is pleased that the U.S. Supreme Court's decision will allow the continued operation of the Public Company Accounting Oversight Board (PCAOB) without any changes or legislative action. This narrow decision clearly severs the PCAOB board member removal process from the rest of the Sarbanes-Oxley Act (SOX) and reaffirms all provisions of the law except for the power to remove the board members. The PCAOB was put in place to achieve the goals Congress embodied in SOX. As we observed in our [friend-of-the-court brief](#), evidence demonstrates that audit quality and investor confidence have improved since the Board's creation. The decision will prevent

any disruption to the key activities of the PCAOB including setting auditing standards and the public company audit oversight process, critical factors in the continued strength and stability of our capital markets.”

[Back to top](#)

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