

Memorandum

SEC Adopts PCAOB Rules on Significant Unusual Transactions and Relationships and Transactions with Related Parties and Executive Officers

October 27, 2014

On October 21, 2014, the Securities and Exchange Commission (“SEC”) approved rules proposed in June by the Public Company Accounting Oversight Board (“PCAOB”), which are intended to enhance auditor performance requirements in three areas that tend to be vulnerable to material misstatement in company financial statements:

- Relationships and transactions between a company and its related parties;
- Significant unusual transactions (*i.e.*, significant transactions that are outside the company’s normal course of business or seem unusual due to their timing, size, or nature); and
- Financial relationships and transactions between a company and its executive officers.¹

The PCAOB’s new and amended auditing standards will apply to all audits performed pursuant to PCAOB standards, including audits of emerging growth companies. The rules will go into effect “for audits of financial statements for fiscal years beginning on or after December 15, 2014, including reviews of interim financial information within these fiscal years.”

¹ See [Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules on Auditing Standard No. 18, Related Parties, Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions, and Other Amendments to PCAOB Auditing Standards](#), SEC Release No. 34-73396 (Oct. 21, 2014); see also [Auditing Standard No. 18 – Related Parties, Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions, and Other Amendments to PCAOB Auditing Standards](#), PCAOB Release No. 2014-002 (June 10, 2014). For a summary of the PCAOB’s new and amended auditing standards, see Memorandum of Simpson Thacher & Bartlett LLP, “[PCAOB Adopts Auditing Standard and Amendments to Increase Auditor Focus on Areas Vulnerable to Material Misstatement](#)” (June 24, 2014).

If you have any questions or would like additional information, please do not hesitate to contact **Yafit Cohn** at (212) 455-3815 or yafit.cohn@stblaw.com, or any other member of the Firm's Public Company Advisory Practice.

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