

## Securities and Exchange Commission

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or a Fair Fund plan; or any determination relating to a plan based solely upon that person's eligibility or potential eligibility to participate in a fund or based upon any private right of action such person may have against any person who is also a respondent in the proceeding.

### PART 202—INFORMAL AND OTHER PROCEDURES

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AUTHORITY: 15 U.S.C. 77s, 77t, 77sss, 77uuu, 78d-1, 78u, 78w, 78l(d), 80a-37, 80a-41, 80b-9, 80b-11, 7201 *et seq.*, unless otherwise noted.

Section 202.9 is also issued under sec. 223, 110 Stat. 859 (Mar. 29, 1996).

SOURCE: 25 FR 6736, July 15, 1960, unless otherwise noted.

#### § 202.1 General.

(a) The statutes administered by the Commission provide generally (1) for the filing with it of certain statements,

such as registration statements, periodic and ownership reports, and proxy solicitation material, and for the filing of certain plans of reorganization, applications and declarations seeking Commission approvals; (2) for Commission determination through formal procedures of matters initiated by private parties or by the Commission; (3) for the investigation and examination of persons and records where necessary to carry out the purposes of the statutes and for enforcement of statutory provisions; and (4) for the adoption of rules and regulations where necessary to effectuate the purposes of the statutes.

(b) In addition to the Commission's rules of practice set forth in part 201 of this chapter, the Commission has promulgated rules and regulations pursuant to the several statutes it administers (parts 230, 240, 260, 270 and 275 of this chapter). These parts contain substantive provisions and include as well numerous provisions detailing the procedure for meeting specific standards embodied in the statutes. The Commission's rules and regulations under each of the statutes are available in pamphlet form upon request to the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.

(c) The statutes and the published rules, regulations and forms thereunder prescribe the course and method of formal procedures to be followed in Commission proceedings. These are supplemented where feasible by certain informal procedures designed to aid the public and facilitate the execution of the Commission's functions. There follows a brief description of procedures generally followed by the Commission which have not been formalized in rules.

(d) The informal procedures of the Commission are largely concerned with the rendering of advice and assistance by the Commission's staff to members of the public dealing with the Commission. While opinions expressed by members of the staff do not constitute an official expression of the Commission's views, they represent the views of persons who are continuously working

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with the provisions of the statute involved. And any statement by the director, associate director, assistant director, chief accountant, chief counsel, or chief financial analyst of a division can be relied upon as representing the views of that division. In certain instances an informal statement of the views of the Commission may be obtained. The staff, upon request or on its own motion, will generally present questions to the Commission which involve matters of substantial importance and where the issues are novel or highly complex, although the granting of a request for an informal statement by the Commission is entirely within its discretion.

[25 FR 6736, July 15, 1960, as amended at 76 FR 71875, Nov. 21, 2011]

### § 202.2 Pre-filing assistance and interpretative advice.

The staff of the Commission renders interpretative and advisory assistance to members of the general public, prospective registrants, applicants and declarants. For example, persons having a question regarding the availability of an exemption may secure informal administrative interpretations of the applicable statute or rule as they relate to the particular facts and circumstances presented. Similarly, persons contemplating filings with the Commission may receive advice of a general nature as to the preparation thereof, including information as to the forms to be used and the scope of the items contained in the forms. Inquiries may be directed to an appropriate officer of the Commission's staff. In addition, informal discussions with members of the staff may be arranged whenever feasible, at the Commission's central office or, except in connection with certain matters under the Investment Company Act of 1940, at one of its regional offices.

[25 FR 6736, July 15, 1960, as amended at 59 FR 5945, Feb. 9, 1994; 73 FR 32227, June 5, 2008; 76 FR 71875, Nov. 21, 2011]

### § 202.3 Processing of filings.

(a) Registration statements, proxy statements, letters of notification, periodic reports, applications for qualification of indentures, and similar documents filed with the Commission

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under the Securities Act of 1933 and the Trust Indenture Act of 1939, and certain filings under the Securities Exchange Act of 1934 are routed to the Division of Corporation Finance, which passes initially on the adequacy of disclosure and recommends the initial action to be taken. If the filing appears to afford inadequate disclosure, as for example through omission of material information or through violation of accepted accounting principles and practices, the usual practice is to bring the deficiency to the attention of the person who filed the document by letter from the Assistant Director assigned supervision over the particular filing, and to afford a reasonable opportunity to discuss the matter and make the necessary corrections. This informal procedure is not generally employed when the deficiencies appear to stem from careless disregard of the statutes and rules or a deliberate attempt to conceal or mislead or where the Commission deems formal proceedings necessary in the public interest. If an electronic filing is not prepared in accordance with the requirements of the current EDGAR Filer Manual, the filing may be suspended and the filer so notified. Reasonable opportunity will be afforded the filer to make the necessary corrections or resubmit the filing as needed. Where it appears that the filing affords adequate disclosure, acceleration of its effectiveness when appropriate normally will be granted. A similar procedure is followed with respect to filings under the Investment Company Act of 1940 and certain filings relating to investment companies under the Securities Act of 1933, the Securities Exchange Act of 1934, and the Trust Indenture Act of 1939, which are routed to the Division of Investment Management. A similar procedure is also followed in the Commission's Regional Offices with respect to registration statements on Forms SB-1 and SB-2 (17 CFR 239.9 and 239.10) and related filings under the Trust Indenture Act of 1939.

(b)(1) Applications for registration as brokers, dealers, investment advisers, municipal securities dealers and transfer agents are submitted to the Office of Filings and Information Services where they are examined to determine

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whether all necessary information has been supplied and whether all required financial statements and other documents have been furnished in proper form. Defective applications may be returned with a request for correction or held until corrected before being accepted as a filing. The files of the Commission and other sources of information are considered to determine whether any person connected with the applicant appears to have engaged in activities which would warrant commencement of proceedings on the question of denial of registration. The staff confers with applicants and makes suggestions in appropriate cases for amendments and supplemental information. Where it appears appropriate in the public interest and where a basis therefore exists, denial proceedings may be instituted. Within 45 days of the date of the filing of a broker-dealer, investment adviser or municipal securities dealer application (or within such longer period as to which the applicant consents), the Commission shall by order grant registration or institute proceedings to determine whether registration should be denied. An application for registration as a transfer agent shall become effective within 30 days after receipt of the application (or within such shorter period as the Commission may determine). The Office of Filings and Information Services is also responsible for the processing and substantive examination of statements of beneficial ownership of securities and changes in such ownership filed under the Securities Exchange Act of 1934, and the Investment Company Act of 1940, and for the examination of reports filed pursuant to §230.144 of this chapter.

(2) Applications for registration as national securities exchanges, or exemption from registration as exchanges by reason of such exchanges' limited volume of transactions filed with the Commission are routed to the Division of Market Regulation, which examines these applications to determine whether all necessary information has been supplied and whether all required financial statements and other documents have been furnished in proper form. Defective applications may be returned with a request for cor-

rection or held until corrected before being accepted as a filing. The files of the Commission and other sources of information are considered to determine whether any person connected with the applicant appears to have engaged in activities which would warrant commencement of proceedings on the question of denial of registration. The staff confers with applicants and makes suggestions in appropriate cases for amendments and supplemental information. Where it appears appropriate in the public interest and where a basis therefore exists, denial proceedings may be instituted. Within 90 days of the date of publication of a notice of the filing of an application for registration as a national securities exchange, or exemption from registration by reason of such exchanges' limited volume of transactions (or within such longer period as to which the applicant consents), the Commission shall by order grant registration, or institute proceedings to determine whether registration should be denied as provided in §240.19(a)(1) of this chapter.

(3) Notice forms for registration as national securities exchanges pursuant to Section 6(g)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78f(g)(1)) filed with the Commission are routed to the Division of Market Regulation, which examines these notices to determine whether all necessary information has been supplied and whether all other required documents have been furnished in proper form. Defective notices may be returned with a request for correction or held until corrected before being accepted as a filing.

[41 FR 44699, Oct. 12, 1976, as amended at 44 FR 21567, Apr. 10, 1979; 49 FR 12686, Mar. 30, 1984; 57 FR 18216, Apr. 29, 1992; 58 FR 15004, Mar. 18, 1993; 59 FR 5945, Feb. 9, 1994; 63 FR 70916, Dec. 22, 1998; 64 FR 19451, Apr. 21, 1999; 66 FR 43741, Aug. 20, 2001; 76 FR 71875, Nov. 21, 2011]

### § 202.3a Instructions for filing fees.

(a) *General instructions for remittance of filing fees.* Payment of filing fees specified by the following sections shall be made according to the directions listed in this section: §§ 230.111, 240.0-9, and 270.0-8 of this chapter. All such fees are to be paid through the

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U.S. Treasury designated lockbox depository or system and may be paid by wire transfer, debit card, or credit card or via the Automated Clearing House Network (“ACH”) pursuant to the specific instructions set forth in paragraph (b) of this section. Checks will not be accepted for payment of fees. To ensure proper posting, all filers must include their Commission-assigned Central Index Key (CIK) number (also known as the Commission-assigned registrant or payor account number) on fee payments. If a third party submits a fee payment, the fee payment must specify the account number to which the fee is to be applied.

(b) *Instructions for payment of filing fees.* Except as provided in paragraph (c) of this section, these instructions provide direction for remitting fees specified in paragraph (a) of this section. You may contact the Filing Fees Branch in the Office of Financial Management at (202) 551-8900 or go to <https://www.sec.gov/paymentoptions> for additional information if you have questions.

(1) *Instructions for payment of fees by wire transfer (FEDWIRE).* U.S. Bank, N.A. in St. Louis, Missouri, is the U.S. Treasury designated financial agent for Commission filing fee payments. The hours of operation at U.S. Bank for wire transfers are each day, except Saturdays, Sundays, and Federal holidays, 8:30 a.m. to 6:30 p.m. Eastern Standard Time or Eastern Daylight Savings Time, whichever is currently in effect. Any bank or wire transfer service may initiate wire transfers of filing fee payments through the FEDWIRE system to U.S. Bank. A filing entity does not need to establish an account at U.S. Bank in order to remit filing fee payments.

(i) To ensure proper credit and prompt filing acceptance, in all wire transfers of filing fees to the Commission, you must include:

(A) The Commission’s account number at U.S. Bank (850000001001); and

(B) The payor’s CIK number.

(ii) You may refer to the examples found on the Commission’s website at <https://www.sec.gov/paymentoptions> for the proper format.

(2) *Instructions for payment of fees by debit card or credit card or via the Auto-*

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*mated Clearing House Network (ACH).* To remit a filing fee payment by debit card or credit card or via ACH, please go to the Commission’s EDGAR system.

NOTE 1 TO PARAGRAPH (B): Wire transfers and debit card, credit card, and ACH payments are not instantaneous. The time required to process a wire transfer through the FEDWIRE system, from origination to receipt by U.S. Bank, varies substantially. Debit card and credit card payments generally are expected to become available to the Commission the next day. ACH payments generally are expected to become available to the Commission within one to three business days. Specified filings, such as registration statements pursuant to section 6(b) of the Securities Act of 1933 that provide for the registration of securities and mandate the receipt of the appropriate fee payment upon filing, and transactional filings pursuant to the Securities Exchange Act of 1934, such as many proxy statements involving extraordinary business transactions, will not be accepted if sufficient funds have not been received by the Commission at the time of filing.

NOTE 2 TO PARAGRAPH (B): You should obtain the reference number of the wire transfer from your bank or wire transfer service. Having this number can greatly facilitate tracing the funds if any problems occur. If a wire transfer of filing fees does not contain the required information in the proper format, the Commission may not be able to identify the payor and the acceptance of filings may be delayed. To ensure proper credit, you must provide all required information to the sending bank or wire transfer service. Commission data must be inserted in the proper fields. The most critical data are the Commission’s account number at U.S. Bank and the payor CIK, the Commission-assigned account number identified as the CIK number.

(c) *Special instructions for §§ 230.462(b) and 230.110(d) of this chapter.* Notwithstanding paragraphs (a) and (b) of this section, for registration statements filed pursuant to §§ 230.462(b) and § 230.110(d) of this chapter, payment of filing fees for the purposes of this section may be made by:

(1) The registrant or its agent instructing its bank or a wire transfer service to transmit to the Commission the applicable filing fee by a wire transfer of such amount from the issuer’s account or its agent’s account to the U.S. Treasury designated

lockbox depository as soon as practicable, but no later than the close of the next business day following the filing of the registration statement; and

(2) The registrant submitting with the registration statement at the time of filing a certification that:

(i) The registrant or its agent has so instructed its bank or a wire transfer service;

(ii) The registrant or its agent will not revoke such instructions; and

(iii) The registrant or its agent has sufficient funds in such account to cover the amount of such filing fee.

NOTE TO PARAGRAPH (c): Such instructions may be sent on the date of filing the registration statement after the close of business of such bank or wire transfer service, provided that the registrant undertakes in the certification sent to the Commission with the registration statement that it will confirm receipt of such instructions by the bank or wire transfer service during regular business hours on the following business day.

(d) *Filing fee accounts.* A filing fee account is maintained for each filer who submits a filing requiring a fee on the Commission's EDGAR system or who submits funds to the U.S. Treasury designated depository in anticipation of paying a filing fee. Account statements are regularly prepared and provided to account holders. Account holders must maintain a current account address with the Commission to ensure timely access to these statements.

NOTE TO PARAGRAPH (d): The deposit of money into a filing fee account does not constitute payment of a filing fee. Payment of the filing fee occurs at the time the filing is made, commensurate with the drawing down of the balance of the fee account.

(e) *Return of funds from inactive accounts.* Funds held in any filing fee account in which there has not been a deposit, withdrawal or other adjustment for more than three years will be returned to the account holder, and account statements will not be sent again until a deposit, withdrawal or other adjustment is made with respect to the account. Filers must maintain a current account address to assure the timely return of funds. It may not be possible to return funds from inactive accounts if the Commission is unable to identify a current account address of

an account holder after making reasonable efforts to do so.

NOTE TO PARAGRAPH (e): A company must update its account and other addresses using the EDGAR Web site. This method ensures data integrity and the timeliest update. Simply changing an address in the text of the cover page of a filing made on the EDGAR system will not be sufficient to update the Commission's account address records.

[73 FR 6013, Feb. 1, 2008, as amended at 76 FR 28890, May 19, 2011; 86 FR 70197, Dec. 9, 2021]

#### § 202.4 Facilitating administrative hearings.

(a) Applications, declarations, and other requests involving formal Commission action after opportunity for hearing are scrutinized by the appropriate division for conformance with applicable statutory standards and Commission rules and generally the filing party is advised of deficiencies. Prior to passing upon applications and declarations the Commission receives the views of all interested persons at public hearings whenever appropriate; hence, any applicant or declarant seeking Commission approval of proposed transactions by a particular time should file his application or declaration in time to allow for the presentation and consideration of such views.

(b) After the staff has had an opportunity to study an application or declaration, interested persons may informally discuss the problems therein raised to the extent that time and the nature of the case permit (e.g., consideration is usually given to whether the proceeding is contested and if so to the nature of the contest). In such event, the staff will, to the extent feasible, advise as to the nature of the issues raised by the filing, the necessity for any amendments to the documents filed, the type of evidence it believes should be presented at the hearing and, in some instances, the nature, form, and contents of documents to be submitted as formal exhibits. The staff will, in addition, generally advise as to Commission policy in past cases which dealt with the same subject matter as the filing under consideration.

(c) During the course of the hearings, the staff is generally available for informal discussions to reconcile bona fide divergent views not only between

itself and other persons interested in the proceedings, but among all interested persons; and, when circumstances permit, an attempt is made to narrow, if possible, the issues to be considered at the formal hearing.

(d) In some instances the Commission in the order accompanying its findings and opinion reserves jurisdiction over certain matters relating to the proceeding, such as payment of fees and expenses, accounting entries, terms and conditions relating to securities to be issued, and other matters. In such cases, upon receipt of satisfactory information and data the Commission considers whether further hearing is required before releasing jurisdiction.

**§ 202.5 Enforcement activities.**

(a) Where, from complaints received from members of the public, communications from Federal or State agencies, examination of filings made with the Commission, or otherwise, it appears that there may be violation of the acts administered by the Commission or the rules or regulations thereunder, a preliminary investigation is generally made. In such preliminary investigation no process is issued or testimony compelled. The Commission may, in its discretion, make such formal investigations and authorize the use of process as it deems necessary to determine whether any person has violated, is violating, or is about to violate any provision of the federal securities laws or the rules of a self-regulatory organization of which the person is a member or participant. Unless otherwise ordered by the Commission, the investigation or examination is non-public and the reports thereon are for staff and Commission use only.

(b) After investigation or otherwise the Commission may in its discretion take one or more of the following actions: Institution of administrative proceedings looking to the imposition of remedial sanctions, initiation of injunctive proceedings in the courts, and, in the case of a willful violation, reference of the matter to the Department of Justice for criminal prosecution. The Commission may also, on some occasions, refer the matter to, or grant requests for access to its files made by, domestic and foreign govern-

mental authorities or foreign securities authorities, self-regulatory organizations such as stock exchanges or the National Association of Securities Dealers, Inc., and other persons or entities.

(c) Persons who become involved in preliminary or formal investigations may, on their own initiative, submit a written statement to the Commission setting forth their interests and position in regard to the subject matter of the investigation. Upon request, the staff, in its discretion, may advise such persons of the general nature of the investigation, including the indicated violations as they pertain to them, and the amount of time that may be available for preparing and submitting a statement prior to the presentation of a staff recommendation to the Commission for the commencement of an administrative or injunction proceeding. Submissions by interested persons should be forwarded to the appropriate Division Director or Regional Director with a copy to the staff members conducting the investigation and should be clearly referenced to the specific investigation to which they relate. In the event a recommendation for the commencement of an enforcement proceeding is presented by the staff, any submissions by interested persons will be forwarded to the Commission in conjunction with the staff memorandum.

(d) In instances where the staff has concluded its investigation of a particular matter and has determined that it will not recommend the commencement of an enforcement proceeding against a person, the staff, in its discretion, may advise the party that its formal investigation has been terminated. Such advice if given must in no way be construed as indicating that the party has been exonerated or that no action may ultimately result from the staff's investigation of the particular matter.

(e) The Commission has adopted the policy that in any civil lawsuit brought by it or in any administrative proceeding of an accusatory nature pending before it, it is important to avoid creating, or permitting to be created, an impression that a decree is being entered or a sanction imposed, when the

conduct alleged did not, in fact, occur. Accordingly, it hereby announces its policy not to permit a defendant or respondent to consent to a judgment or order that imposes a sanction while denying the allegations in the complaint or order for proceedings. In this regard, the Commission believes that a refusal to admit the allegations is equivalent to a denial, unless the defendant or respondent states that he neither admits nor denies the allegations.

(f) In the course of the Commission's investigations, civil lawsuits, and administrative proceedings, the staff, with appropriate authorization, may discuss with persons involved the disposition of such matters by consent, by settlement, or in some other manner. It is the policy of the Commission, however, that the disposition of any such matter may not, expressly or impliedly, extend to any criminal charges that have been, or may be, brought against any such person or any recommendation with respect thereto. Accordingly, any person involved in an enforcement matter before the Commission who consents, or agrees to consent, to any judgment or order does so solely for the purpose of resolving the claims against him in that investigative, civil, or administrative matter and not for the purpose of resolving any criminal charges that have been, or might be, brought against him. This policy reflects the fact that neither the Commission nor its staff has the authority or responsibility for instituting, conducting, settling, or otherwise disposing of criminal proceedings. That authority and responsibility are vested in the Attorney General and representatives of the Department of Justice.

[25 FR 6736, July 15, 1960, as amended at 37 FR 23829, Nov. 9, 1972; 37 FR 25224, Nov. 29, 1972; 44 FR 50835, Aug. 30, 1979; 46 FR 47532, Sept. 29, 1981; 47 FR 26822, June 22, 1982; 54 FR 24332, June 7, 1989; 59 FR 5945, Feb. 9, 1994; 73 FR 32227, June 5, 2008]

**§ 202.6 Adoption, revision, and rescission of rules and regulations of general application.**

(a) The procedure followed by the Commission in connection with the adoption, revision, and rescission of rules of general application necessarily

varies in accordance with the nature of the rule, the extent of public interest therein, and the necessity for speed in its adoption. Rules relating to Commission organization, procedure and management, for example, are generally adopted by the Commission without affording public discussion thereof. On the other hand, in the adoption of substantive rules materially affecting an industry or a segment of the public, such as accounting rules, every feasible effort is made in advance of adoption to receive the views of persons to be affected. In such cases, proposals for the adoption, revision, or rescission of rules are initiated either by the Commission or by members of the public, and to the extent practicable, the practices set forth in paragraph (b) of this section are observed.

(b) After preliminary consideration by the Commission a draft of the proposed rule is published in the FEDERAL REGISTER and mailed to interested persons (e.g., other interested regulatory bodies, principal registrants or persons to be affected, stock exchanges, professional societies and leading authorities on the subject concerned and other persons requesting such draft) for comments. Unless accorded confidential treatment pursuant to statute or rule of the Commission, written comments filed with the Commission on or before the closing date for comments become a part of the public record upon the proposed rule. The Commission, in its discretion, may accept and include in the public record written comments received by the Commission after the closing date.

(c) Following analysis of comments received, the rule may be adopted in the form published or in a revised form in the light of such comments. In some cases, a revised draft is prepared and published and, where appropriate, an oral hearing may be held before final action upon the proposal. Any interested person may appear at the hearing and/or may submit written comment for consideration in accordance with the Commission's notice of the rule-making procedure to be followed. The rule in the form in which it is adopted by the Commission is publicly released

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and is published in the FEDERAL REGISTER.

[25 FR 6736, July 15, 1960, as amended at 44 FR 35208, June 19, 1979; 76 FR 71875, Nov. 21, 2011]

### § 202.7 Submittals.

(a) All required statements, reports, applications, etc. must be filed with the principal office of the Commission unless otherwise specified in the Commission's rules, schedules and forms. Reports by exchange members, brokers and dealers required by §240.17a-5 of this chapter under the Securities Exchange Act of 1934 must be filed with the appropriate regional office as provided in §230.255(a) of this chapter under the Securities Act of 1933, and with the principal office of the Commission and the appropriate regional office as provided under §240.17a-5(a) *et seq.* of this chapter under the Securities Exchange Act of 1934.

(b) *Electronic filings.* All documents required to be filed in electronic format with the Commission pursuant to the federal securities laws or the rules and regulations thereunder shall be filed at the principal office in Washington, DC via EDGAR by delivery to the Commission of a magnetic tape or diskette, or by direct transmission.

[41 FR 44699, Oct. 12, 1976, as amended at 58 FR 14659, Mar. 18, 1993; 59 FR 5945, Feb. 9, 1994; 73 FR 32227, June 5, 2008]

### § 202.8 Small entity compliance guides.

The following small entity compliance guides are available to the public from the Commission's Publications Room and regional offices:

(a) *Q & A: Small Business and the SEC.*<sup>1</sup>

(b) *The Work of the SEC.*<sup>1</sup>

(c) *Broker-Dealer Registration Package.*

(d) *Investment Adviser Registration Package.*

(e) *Investment Company Registration Package.*

(f) *Examination Information for Broker-Dealers, Transfer Agents, Investment Advisers and Investment Companies.*

[62 FR 4105, Jan. 28, 1997]

<sup>1</sup>These items are also available on the Securities and Exchange Commission Web site on the Internet, <http://www.sec.gov>.

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### § 202.9 Small entity enforcement penalty reduction policy.

The Commission's policy with respect to whether to reduce or assess civil money penalties against a small entity is:

(a) The Commission will consider on a case-by-case basis whether to reduce or not assess civil money penalties against a small entity. In determining whether to reduce or not assess penalties against a specific small entity, the following considerations will apply:

(1) Except as provided in paragraph (a)(3) of this section, penalty reduction will not be available for any small entity if:

(i) The small entity was subject previously to an enforcement action;

(ii) Any of the small entity's violations involved willful or criminal conduct; or

(iii) The small entity did not make a good faith effort to comply with the law.

(2) In considering whether the Commission will reduce or refrain from assessing a civil money penalty, the Commission may consider:

(i) The egregiousness of the violations;

(ii) The isolated or repeated nature of the violations;

(iii) The violator's state of mind when committing the violations;

(iv) The violator's history (if any) of legal or regulatory violations;

(v) The extent to which the violator cooperated during the investigation;

(vi) Whether the violator has engaged in subsequent remedial efforts to mitigate the effects of the violation and to prevent future violations;

(vii) The degree to which a penalty will deter the violator or others from committing future violations; and

(viii) Any other relevant fact.

(3) The Commission also may consider whether to reduce or not assess a civil money penalty against a small entity, including a small entity otherwise excluded from this policy under paragraphs (a)(1) (i)-(iii) of this section, if the small entity can demonstrate to the Commission's satisfaction that it is financially unable to pay the penalty, immediately or over a reasonable period of time, in whole or in part.

(4) For purposes of this policy, an entity qualifies as “small” if it is a small business or small organization as defined by Commission rules adopted for the purpose of compliance with the Regulatory Flexibility Act.<sup>1</sup> An entity not included in these definitions will be considered “small” for purposes of this policy if it meets the total asset amount that applies to issuers as set forth in §230.157a of this chapter.<sup>2</sup>

(b) This policy does not create a right or remedy for any person. This policy shall not apply to any remedy that may be sought by the Commission other than civil money penalties, whether or not such other remedy may be characterized as penal or remedial.

[62 FR 16079, Apr. 4, 1997, as amended at 76 FR 71875, Nov. 21, 2011]

**§ 202.10 Policy statement of the Securities and Exchange Commission concerning subpoenas to members of the news media.**

Freedom of the press is of vital importance to the mission of the Securities and Exchange Commission. Effective journalism complements the Commission’s efforts to ensure that investors receive the full and fair disclosure

<sup>1</sup>Pursuant to the Reg. Flex. Act, 5 U.S.C. § 601(3), the Commission has adopted appropriate definitions of “small business” for purposes of the Reg. Flex. Act. See 17 CFR 270.0-10, 275.0-7, 240.0-10, 230.157, and 260.0-7. The Commission recently proposed amendments to certain of these definitions. *Definitions of “Small Business” or “Small Organization” Under the Investment Company Act of 1940, the Investment Advisers Act of 1940, the Securities Exchange Act of 1934, and the Securities Act of 1933*, Securities Act Rel. No. 7383, 62 FR 4106 (Jan. 28, 1997). The Commission extended the comment period for the proposed amendments to April 30, 1997, 62 FR 13356 (Mar. 20, 1997). Based on an analysis of the language and legislative history of the Reg. Flex. Act, Congress does not appear to have intended that Act to apply to natural persons (as opposed to individual proprietorships) or to foreign entities. The Commission understands that staff at the Small Business Administration have taken the same position.

<sup>2</sup>At present, this threshold is \$5 million. Thus, non-regulated entities, such as general partnerships, privately held corporations or professional service organizations, with assets of \$5 million or less may qualify for penalty-reduction.

that the law requires, and that they deserve. Diligent reporting is an essential means of bringing securities law violations to light and ultimately helps to deter illegal conduct. In this *Policy Statement the Commission sets forth guidelines for the agency’s professional staff* to ensure that vigorous enforcement of the federal securities laws is conducted completely consistently with the principles of the First Amendment’s guarantee of freedom of the press, and specifically to avoid the issuance of subpoenas to members of the media that might impair the news gathering and reporting functions. These guidelines shall be adhered to by all members of the staff in all cases:

(a) In determining whether to issue a subpoena to a member of the news media, the approach in every case must be to strike the proper balance between the public’s interest in the free dissemination of ideas and information and the public’s interest in effective enforcement of the federal securities laws.

(b) When the staff investigating a matter determines that a member of the news media may have information relevant to the investigation, the staff should:

(1) Determine whether the information might be obtainable from alternative non-media sources.

(2) Make all reasonable efforts to obtain that information from those alternative sources. Whether all reasonable efforts have been made will depend on the particular circumstances of the investigation, including whether there is an immediate need to preserve assets or protect investors from an ongoing fraud.

(3) Determine whether the information is essential to successful completion of the investigation.

(c) If the information cannot reasonably be obtained from alternative sources and the information is essential to the investigation, then the staff, after seeking approval from the responsible Regional Director, District Administrator, or Associate Director, should contact legal counsel for the member of the news media. Staff should contact a member of the news media directly only if the member is not represented by legal counsel. The

purpose of this contact is to explore whether the member may have information essential to the investigation, and to determine the interests of the media with respect to the information. If the nature of the investigation permits, the staff should make clear what its needs are as well as its willingness to respond to particular problems of the media. The staff should consult with the Commission's Office of Public Affairs, as appropriate.

(d) The staff should negotiate with news media members or their counsel, consistently with this Policy Statement, to obtain the essential information through informal channels, avoiding the issuance of a subpoena, if the responsible Regional Director, District Administrator, or Associate Director determines that such negotiations would not substantially impair the integrity of the investigation. Depending on the circumstances of the investigation, informal channels may include voluntary production, informal interviews, or written summaries.

(e) If negotiations are not successful in achieving a resolution that accommodates the Commission's interest in the information and the media's interests without issuing a subpoena, the staff investigating the matter should then consider whether to seek the issuance of a subpoena for the information. The following principles should guide the determination of whether a subpoena to a member of the news media should be issued:

(1) There should be reasonable grounds to believe that the information sought is essential to successful completion of the investigation. The subpoena should not be used to obtain peripheral or nonessential information.

(2) The staff should have exhausted all reasonable alternative means of obtaining the information from non-media sources. Whether all reasonable efforts have been made to obtain the information from alternative sources will depend on the particular circumstances of the investigation, including whether there is an immediate need to preserve assets or protect investors from an ongoing fraud.

(f) If there are reasonable grounds to believe the information sought is essential to the investigation, all reason-

able alternative means of obtaining it have been exhausted, and all efforts at negotiation have failed, then the staff investigating the matter shall seek authorization for the subpoena from the Director of the Division of Enforcement. No subpoena shall be issued unless the Director, in consultation with the General Counsel, has authorized its issuance.

(g) In the event the Director of the Division of Enforcement, after consultation with the General Counsel, authorizes the issuance of a subpoena, notice shall immediately be provided to the Chairman of the Commission.

(h) Counsel (or the member of the news media, if not represented by counsel) shall be given reasonable and timely notice of the determination of the Director of the Division of Enforcement to authorize the subpoena and the Director's intention to issue it.

(i) Subpoenas should be negotiated with counsel for the member of the news media to narrowly tailor the request for only essential information. In negotiations with counsel, the staff should attempt to accommodate the interests of the Commission in the information with the interests of the media.

(j) Subpoenas should, wherever possible, be directed at material information regarding a limited subject matter, should cover a reasonably limited period of time, and should avoid requiring production of a large volume of unpublished material. They should give reasonable and timely notice of their demand for documents.

(k) In the absence of special circumstances, subpoenas to members of the news media should be limited to the verification of published information and to surrounding circumstances relating to the accuracy of published information.

(l) Because the intent of this policy statement is to protect freedom of the press, news gathering functions, and news media sources, this policy statement does not apply to demands for purely commercial or financial information unrelated to the news gathering function.

(m) Failure to follow this policy may constitute grounds for appropriate disciplinary action. The principles set

forth in this statement are not intended to create or recognize any legally enforceable rights in any person.

[71 FR 20340, Apr. 20, 2006]

**§ 202.12 Policy statement concerning cooperation by individuals in its investigations and related enforcement actions.**

Cooperation by individuals and entities in the Commission's investigations and related enforcement actions can contribute significantly to the success of the agency's mission. Cooperation can enhance the Commission's ability to detect violations of the federal securities laws, increase the effectiveness and efficiency of the Commission's investigations, and provide important evidence for the Commission's enforcement actions. There is a wide spectrum of tools available to the Commission and its staff for facilitating and rewarding cooperation by individuals, ranging from taking no enforcement action to pursuing reduced charges and sanctions in connection with enforcement actions. As with any cooperation program, there exists some tension between the objectives of holding individuals fully accountable for their misconduct and providing incentives for individuals to cooperate with law enforcement authorities. This policy statement sets forth the analytical framework employed by the Commission and its staff for resolving this tension in a manner that ensures that potential cooperation arrangements maximize the Commission's law enforcement interests. Although the evaluation of cooperation requires a case-by-case analysis of the specific circumstances presented, as described in greater detail below, the Commission's general approach is to determine whether, how much, and in what manner to credit cooperation by individuals by evaluating four considerations: the assistance provided by the cooperating individual in the Commission's investigation or related enforcement actions ("Investigation"); the importance of the underlying matter in which the individual cooperated; the societal interest in ensuring that the cooperating individual is held accountable for his or her misconduct; and the appropriateness of cooperation credit

based upon the profile of the cooperating individual. In the end, the goal of the Commission's analysis is to protect the investing public by determining whether the public interest in facilitating and rewarding an individual's cooperation in order to advance the Commission's law enforcement interests justifies the credit awarded to the individual for his or her cooperation.

(a) *Assistance provided by the individual.* The Commission assesses the assistance provided by the cooperating individual in the Investigation by considering, among other things:

(1) The value of the individual's cooperation to the Investigation including, but not limited to:

(i) Whether the individual's cooperation resulted in substantial assistance to the Investigation;

(ii) The timeliness of the individual's cooperation, including whether the individual was first to report the misconduct to the Commission or to offer his or her cooperation in the Investigation, and whether the cooperation was provided before he or she had any knowledge of a pending investigation or related action;

(iii) Whether the Investigation was initiated based on information or other cooperation provided by the individual;

(iv) The quality of cooperation provided by the individual, including whether the cooperation was truthful, complete, and reliable; and

(v) The time and resources conserved as a result of the individual's cooperation in the Investigation.

(2) The nature of the individual's cooperation in the Investigation including, but not limited to:

(i) Whether the individual's cooperation was voluntary or required by the terms of an agreement with another law enforcement or regulatory organization;

(ii) The types of assistance the individual provided to the Commission;

(iii) Whether the individual provided non-privileged information, which information was not requested by the staff or otherwise might not have been discovered;

(iv) Whether the individual encouraged or authorized others to assist the staff who might not have otherwise participated in the Investigation; and

(v) Any unique circumstances in which the individual provided the cooperation.

(b) *Importance of the underlying matter.* The Commission assesses the importance of the Investigation in which the individual cooperated by considering, among other things:

(1) The character of the Investigation including, but not limited to:

(i) Whether the subject matter of the Investigation is a Commission priority;

(ii) The type of securities violations;

(iii) The age and duration of the misconduct;

(iv) The number of violations; and

(v) The isolated or repetitive nature of the violations.

(2) The dangers to investors or others presented by the underlying violations involved in the Investigation including, but not limited to:

(i) The amount of harm or potential harm caused by the underlying violations;

(ii) The type of harm resulting from or threatened by the underlying violations; and

(iii) The number of individuals or entities harmed.<sup>1</sup>

(c) *Interest in holding the individual accountable.* The Commission assesses the societal interest in holding the cooperating individual fully accountable for his or her misconduct by considering, among other things:

(1) The severity of the individual's misconduct assessed by the nature of the violations and in the context of the individual's knowledge, education, training, experience, and position of responsibility at the time the violations occurred;

(2) The culpability of the individual, including, but not limited to, whether the individual acted with scienter, both generally and in relation to others who participated in the misconduct;

(3) The degree to which the individual tolerated illegal activity including, but not limited to, whether he or she took steps to prevent the violations from occurring or continuing, such as notifying the Commission or other appropriate law enforcement

agency of the misconduct or, in the case of a violation involving a business organization, by notifying members of management not involved in the misconduct, the board of directors or the equivalent body not involved in the misconduct, or the auditors of such business organization of the misconduct;

(4) The efforts undertaken by the individual to remediate the harm caused by the violations including, but not limited to, whether he or she paid or agreed to pay disgorgement to injured investors and other victims or assisted these victims and the authorities in the recovery of the fruits and instrumentalities of the violations; and

(5) The sanctions imposed on the individual by other federal or state authorities and industry organizations for the violations involved in the Investigation.

(d) *Profile of the individual.* The Commission assesses whether, how much, and in what manner it is in the public interest to award credit for cooperation, in part, based upon the cooperating individual's personal and professional profile by considering, among other things:

(1) The individual's history of lawfulness, including complying with securities laws or regulations;

(2) The degree to which the individual has demonstrated an acceptance of responsibility for his or her past misconduct; and

(3) The degree to which the individual will have an opportunity to commit future violations of the federal securities laws in light of his or her occupation—including, but not limited to, whether he or she serves as: A licensed individual, such as an attorney or accountant; an associated person of a regulated entity, such as a broker or dealer; a fiduciary for other individuals or entities regarding financial matters; an officer or director of public companies; or a member of senior management—together with any existing or proposed safeguards based upon the individual's particular circumstances.

NOTE TO § 202.12: Before the Commission evaluates an individual's cooperation, it analyzes the unique facts and circumstances of the case. The above principles are not listed in order of importance nor are they intended

<sup>1</sup>Cooperation in Investigations that involve priority matters or serious, ongoing, or widespread violations will be viewed most favorably.

to be all-inclusive or to require a specific determination in any particular case. Furthermore, depending upon the facts and circumstances of each case, some of the principles may not be applicable or may deserve greater weight than others. Finally, neither this statement, nor the principles set forth herein creates or recognizes any legally enforceable rights for any person.

[75 FR 3123, Jan. 19, 2010]

**§ 202.13 Informal procedure with respect to applications under the Investment Company Act of 1940.**

(a) On any application subject to 17 CFR 270.0-5, other than an application eligible for and proceeding under expedited review as provided for by 17 CFR 270.0-5(d), (e), and (f), the Division should take action within 90 days of the initial filing and each of the first three amendments thereto, and within 60 days of any subsequent amendment. Such 90- or 60-day period will stop running upon any irregular closure of the Commission's Washington, DC office to the public for normal business, including, but not limited to, closure due to a lapse in Federal appropriations, national emergency, inclement weather, or ad hoc Federal holiday, and will resume upon the reopening of the Commission's Washington, DC office to the public for normal business. The Division may grant 60-day extensions and the applicant should be notified of any such extension.

(b) Action on the application or any amendment thereto shall consist of:

- (1) Issuing a notice;
- (2) Providing the applicant with requests for clarification or modification of the application; or
- (3) Informing applicant that the application will be forwarded to the Commission, in which case the application is no longer subject to the provisions set forth in paragraph (a) of this section.

(c) The provisions of this section, including the timeframes provided for in this section, are not intended to create enforceable rights by any interested parties and shall not be deemed to do so. Rather, this section provides informal non-binding guidelines and procedures that the Commission anticipates the Division following.

[85 FR 57107, Sept. 15, 2020]

**Subpart A—Public Company Accounting Oversight Board (Regulation P)**

**§ 202.140 Interim Commission review of PCAOB inspection reports.**

(a) *Definitions.*

(1) *Board or PCAOB* means the Public Company Accounting Oversight Board.

(2) *Registered public accounting firm or Firm* shall have the meaning set forth in 15 U.S.C. 7201(a)(12).

(3) *Associated person* means a person associated with the registered public accounting firm as defined in 15 U.S.C. 7201(a)(9).

(b) *Reviewable matters.* A registered public accounting firm may request interim Commission review of an assessment or determination by the PCAOB contained in an inspection report prepared under 15 U.S.C. 7214 and relating to that firm, if the firm:

(1) Has provided the PCAOB with a response, pursuant to the rules of the PCAOB, to the substance of particular items in a draft inspection report and disagrees with the assessments relating to those items contained in any final inspection report prepared by the PCAOB following such response;

(2) Disagrees with an assessment contained in any final inspection report that was not contained in the draft inspection report provided to the firm under 15 U.S.C. 7214(f) or the rules of the PCAOB; or

(3) Disagrees with the determination of the PCAOB that criticisms or defects in the quality control systems of the firm that were identified in an inspection report, but not disclosed to the public, have not been addressed to the satisfaction of the PCAOB within 12 months after the date of that inspection report.

(c) *Procedures for requesting interim Commission review.* (1) A request for interim Commission review with respect to matters described in paragraph (b) of this section must be submitted to the Commission's Office of the Secretary within 30 calendar days of the following:

(i) The date the firm is provided a copy of the final inspection report described in paragraph (b)(1) or (b)(2) of this section; or

(ii) The date the firm receives notice of the PCAOB's determination described in paragraph (b)(3) of this section.

(2) The PCAOB shall not make publicly available the final inspection report or criticisms or defects in the quality control systems of the firm subject to a determination described in paragraph (b) of this section, as applicable, during the 30-day period during which the firm may request interim Commission review, unless the firm consents in writing to earlier publication of the report.

(3) A request for interim Commission review ("request" or "submission") must be marked "Request for Interim Commission Review With Respect to PCAOB Inspection Report." The request must focus on the specific matters for which relief is requested and succinctly address the issues raised by the PCAOB. The request, to the extent possible, should include, for example:

(i) A copy of the particular inspection report that is the subject of the request;

(ii) The specific assessments or determinations that are the subject of the request;

(iii) The alleged errors or deficiencies in the PCAOB's assessments or determination and the reasons for the firm's position;

(iv) If the matter is being reviewed under paragraph (b)(3) of this section, any actions taken by the registered public accounting firm to address criticisms or defects identified in the inspection report; and

(v) Any supporting documentation relevant to the review.

(4) The firm must provide a copy of its review request to the PCAOB simultaneously with its submission to the Commission.

(5) A timely review request by a firm will operate as a stay of publication of those portions of the final inspection report or criticisms or defects in the quality control systems of the firm subject to a determination described in paragraph (b) of this section, as applicable, that are the subject of the firm's review request, unless the Commission otherwise determines in its own discretion. Upon expiration of the 30-day period during which the firm may request

interim Commission review, the PCAOB shall make publicly available the remainder of the final inspection report or criticisms or defects in the quality control systems of the firm that were identified in an inspection report, as applicable, that are not the subject of the firm's review request, unless the Commission otherwise determines that such a result would not be necessary or appropriate.

(6) If the firm fails to make a timely review request, pursuant to Section 104(g)(2) of the Act, the PCAOB shall make publicly available the final inspection report or criticisms or defects in the quality control systems of the firm that were identified in an inspection report, as applicable.

(d) *Procedures for granting or denying the review request.* Within 30 calendar days of a timely review request, the Commission will notify the firm and the PCAOB as to whether the Commission will exercise its discretion to grant the request for an interim review. If the Commission does not grant the review request, the stay of publication is terminated upon notification to the firm and the PCAOB. If the Commission does grant the review request, the stay of publication shall continue unless the Commission determines otherwise in its own discretion, or unless the firm consents in writing to the PCAOB, with a copy to the Commission, to earlier publication.

(e) *Procedures where a review request has been granted.* (1) Where the Commission has notified the firm and the PCAOB that it is granting the request for an interim review, the PCAOB may submit responsive information and documents with the Commission within 15 calendar days of receipt of such notice. The PCAOB must provide a copy of such information and documents simultaneously to the firm.

(2) During the course of the interim review, the Commission may request additional information relating to the PCAOB's assessments or determination under review, and provide a period of up to seven calendar days to respond to such request, from the PCAOB, the firm, and any associated person of the firm. The Commission may grant the firm or the PCAOB a period of up to seven calendar days to respond to any

information obtained pursuant to this paragraph. The firm or the PCAOB, as applicable, shall provide simultaneously to the other party all information provided as a result of a request for additional information or responses thereto. The firm with which any associated person from whom information is requested shall provide simultaneously to the PCAOB all information provided as a result of a request for additional information or responses thereto. If the firm (including any associated person) or the PCAOB fails to respond timely to a request from the Commission, such failure may serve as the basis for the Commission to conclude its review and make a determination adverse to the non-responsive party.

(3) The Commission, based on the information submitted by the firm, the PCAOB and any associated persons, shall consider whether the PCAOB's assessments or determination are arbitrary and capricious, or otherwise not consistent with the purposes of the Act.

(4) At the conclusion of its review, the Commission shall inform the firm and the PCAOB in writing that the Commission:

(i) Does not object to all or part of the assessments or determination of the PCAOB and the stay of publication is terminated; or

(ii) Remands to the PCAOB with instructions that the stay of publication is permanent or that the PCAOB take such other actions as the Commission deems necessary or appropriate with respect to publication, including, but not limited to, revising the final inspection report or determinations before publication.

(5) The review pursuant to this section shall be completed and a written notice pursuant to this section shall be sent no more than 75 calendar days after notification to the firm and the PCAOB that the Commission is granting the request for an interim review, unless the Commission extends the period for good cause.

(f) *Treatment of review.* (1) Time periods in this section shall be computed as provided in the Commission's Rules of Practice, 17 CFR 201.160.

(2) Unless otherwise determined by the Commission, the decision to grant or deny a review request and the conclusions of the Commission's review shall be non-public, and the information or documents submitted, created, or obtained by the Commission or its staff in the course of the review shall be deemed non-public. Nothing in this rule shall be construed to impair or limit the ability of any party to request confidential treatment under the Freedom of Information Act, 15 U.S.C. 7215(b)(5), or any other applicable law.

(3) Pursuant to 15 U.S.C. 7214(h)(2), any decision of the Commission as a result of an interim review with respect to a PCAOB inspection report, including whether a request for review is granted or denied, shall not be reviewable under 15 U.S.C. 78y and shall not be deemed to be "final agency action" for purposes of 5 U.S.C. 704.

(4) Any action taken by the Commission relates solely to the publication of the relevant inspection report and does not affect the ability of the Commission or PCAOB to take appropriate action.

(g) *Designation of address; Representation.* (1) When a registered public accounting firm first submits a request for interim Commission review, or an associated person first submits information related to a request, the firm or associated person shall submit to the Commission, and keep current, an address at which any notice or other written communication furnished to the firm or associated person may be sent, a contact name and telephone number where the firm or associated person may be reached during business hours and, if represented, the representative's name, business address, and telephone number.

(2) If the firm, PCAOB, or associated person will be represented by a representative, the initial submission of that person shall be accompanied by the notice of appearance required by § 201.102(d). The other provisions of § 201.102 with respect to representation before the Commission shall apply.

[75 FR 47449, Aug. 6, 2010]

## § 202.150

### **§ 202.150 Commission approval of appointment or removal from office of Public Company Accounting Oversight Board hearing officers.**

The Commission shall approve both the appointment and removal from office of any hearing officer employed by the Public Company Accounting Oversight Board. No action by the Board proposing to appoint or remove from office a hearing officer shall be final absent Commission approval.

[84 FR 12908, Apr. 3, 2019]

### **§ 202.170 Initiation of disapproval proceedings for PCAOB proposed rules.**

Initiation of disapproval proceedings for proposed rules of the Public Company Accounting Oversight Board as defined by section 107 of the Sarbanes-Oxley Act of 2002 are subject to the provisions of §§ 201.700 and 201.701 of this chapter as fully as if it were a *registered securities association*, except that:

(a) *Demonstration of consistency with the Sarbanes-Oxley Act of 2002.* For purposes of proposed rules of the Public Company Accounting Oversight Board, apply this paragraph in lieu of paragraph (b)(3) of § 201.700 of this chapter. The burden to demonstrate that a proposed rule is consistent with the requirements of title I of the Sarbanes-Oxley Act of 2002, and the rules and regulations issued thereunder, or as necessary or appropriate in the public interest or for the protection of investors, is on the Public Company Accounting Oversight Board. In its filing the Public Company Accounting Oversight Board must explain in a clear and comprehensible manner why the proposed rule change is consistent with the requirements of title I of the Sarbanes-Oxley Act of 2002 and the rules and regulations thereunder, or as necessary or appropriate in the public interest or for the protection of investors. A mere assertion that the proposed rule change is consistent with those requirements is not sufficient. Instead, the description of the proposed rule, its purpose and operation, its effect, and a legal analysis of its consistency with applicable requirements must all be sufficiently detailed and specific to support an affirmative Commission finding. Any failure by the Public Company Accounting Oversight

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Board in its proposed rule filing with the Commission may result in the Commission not having a sufficient basis to make an affirmative finding that a proposed rule change is consistent with the title I of the Sarbanes-Oxley Act of 2002, and the rules and regulations issued thereunder, or as necessary or appropriate in the public interest or for the protection of investors.

(b) For each reference to “the Exchange Act and the rules and regulations thereunder applicable to the self-regulatory organization” apply “title I of the Sarbanes-Oxley Act of 2002, and the rules and regulations issued thereunder applicable to such organization, or as necessary or appropriate in the public interest or for the protection of investors.”

[76 FR 4072, Jan. 24, 2011]

### **§ 202.190 Public Company Accounting Oversight Board budget approval process.**

(a) *Purpose.* These procedures are established in connection with consideration and approval of the budget and the accounting support fee for the Public Company Accounting Oversight Board (PCAOB). Actions attributed to the PCAOB in this section shall be performed as authorized by the Sarbanes-Oxley Act of 2002 and the PCAOB’s by-laws.

(b) *Definitions.* For the purposes of this section, the following definitions shall apply:

(1) *Budget category* means a grouping of similar expenditures within the PCAOB’s budget. Budget categories shall include, among others: personnel, training, recruiting and relocation expenses, information technology, consulting and professional fees, travel, administrative expenses, lease costs and related expenses, and capital improvements of facilities.

(2) *Budget justification* means the justification for each annual budget, prepared in concise and specific terms, covering all of the PCAOB’s programs and activities, and including, among other things as may be requested by the Commission:

(i) A performance budget for the budget year;

(ii) An analysis of the PCAOB's budget, including a tabular presentation that identifies the budgetary resources required for each program area (with a breakout of resources by budget category); a description of the budgetary resources identified in the budget in the context of the PCAOB's programs and activities; and an explanation of the analysis used to determine the resources needed to accomplish each program and strategic goal that demonstrates that reasonable opportunities for making more efficient and effective use of resources have been explored;

(iii) A description of the relationship between the results or outcomes the PCAOB expects to achieve (as discussed in the PCAOB's strategic plan) and the resources requested in the budget;

(iv) Assumptions underlying the calculation of the working capital reserve as permitted in paragraph (d)(3) of this section and assumptions underlying PCAOB estimates, including work years, program outputs, base compensation levels and proposed compensation increases, and costs of inputs such as materials or contract costs;

(v) A discussion of any models used to develop PCAOB estimates;

(vi) Detailed funding levels for education, training, and travel of the PCAOB workforce;

(vii) Information sufficient for the Commission to assess current and proposed capital projects and information technology projects; and

(viii) A statement that the PCAOB has considered relative costs and benefits in formulating the programs, projects and activities described in the budget.

(3) *Budget year* means the PCAOB fiscal year that is the subject of the budget prepared and submitted by the PCAOB to the Commission for approval.

(4) *Current year* means the PCAOB fiscal year that precedes the budget year, and is the year in which the PCAOB prepares the budget.

(5) *Performance budget* means a budget that presents what the PCAOB proposes to accomplish in the budget year and what resources these proposals will require, and that serves as the primary basis for the justification of the budget

submitted to the Commission for approval. The performance budget includes:

(i) A description of what the PCAOB plans to accomplish, organized by strategic goal;

(ii) Background on what the PCAOB has accomplished, organized by strategic goal;

(iii) Analyses of the strategies the PCAOB uses to influence strategic outcomes, including whether those strategies could be improved and, if so, how they could be improved;

(iv) Analyses of the programs that contribute to each goal and their relative roles and effectiveness;

(v) Performance targets for the budget year and the current year and how the PCAOB expects to achieve those targets, as well as actual performance levels achieved in the year immediately preceding the current year;

(vi) The budgetary resources the PCAOB is requesting to achieve those targets;

(vii) Descriptions of the operations, processes, staff skills, information and other technologies, human resources, capital assets, and other resources to be used in achieving the PCAOB's performance goals; and

(viii) Descriptions of the programs, policies, and management, regulatory, and other initiatives and approaches to be used in achieving the PCAOB's performance goals.

(6) *Preliminary budget* means the draft budget submitted for initial consideration by the Commission, which shall be a complete or substantially complete budget for the budget year, and which is accompanied by a budget justification.

(7) *Program area* means the array of the budgeted amounts and other budget-related data according to the major purpose served, such as registration, inspection, standard-setting, enforcement, and administration.

(8) *Receipts* means collections that result from issuers' payments of accounting support fees; public accounting firms' payment of registration fees and fees associated with annual reports; interest income; and other sources of revenue.

(9) *Strategic plan* means the PCAOB's overarching plan for accomplishing its

strategic goals, including forecasts for the current and four following years; estimates of the effect that reasonably foreseeable changes impacting the auditing profession and securities markets could have on program levels; and a discussion of the impact that program levels and changes in methods of program delivery, including advances in technology, could have on program operations and administration.

(10) *Supplemental budget* means a budget or amendment thereto submitted to the Commission for approval subsequent to Commission approval of the budget for the budget year, when:

(i) There is a need for additional funds in a program area;

(ii) Resources are to be applied in a manner not fairly implied in the Commission-approved budget and budget justification, such as when programs are created to perform functions that are not, or to perform functions in a way that is not, fairly implied from the Commission-approved budget and budget justification; or

(iii) Programs described in the Commission-approved budget and budget justification are to be eliminated.

(c) *Timetable*. The timetable for preparation and submission of the annual budget is as follows:

Date	Event
On or before March 15 .....	PCAOB provides a narrative of its program issues and outlook for the budget year.
On or before April 30 .....	Commission provides economic assumptions and general budgetary guidance to the PCAOB.
On or before July 31 .....	PCAOB submits preliminary budget and budget justification for Commission review.
August–October .....	Consultation between Commission and PCAOB; Commission staff conducts review of PCAOB preliminary budget, budget justification and related information.
On or before October 31 .....	Commission passback of budget to the PCAOB with proposed revisions.
On or before November 30 .....	PCAOB adopts budget and submits it, along with the budget justification, to the Commission.
On or before December 23 .....	Commission votes on the PCAOB budget.

(d) *Contents of budget*. (1) To facilitate Commission review and approval, each budget (including each preliminary budget and budget submitted for Commission approval) shall:

(i) Be accompanied by a budget justification.

(ii) Include information for the budget year, the current year, and the year immediately preceding the current year, regarding actual or projected spending by program area, receipts, debt, and employment levels.

(iii) Be consistent with, or explain any deviations from, the economic assumptions and budgetary guidance provided by the Commission.

(iv) Include statements of PCAOB programs, initiatives and strategies for the budget year.

(v) Earmark each amount for a specific budget category within a program area.

(vi) Include planned beginning-of-year and end-of-year headcounts for each program area.

(2) Each budget submitted for Commission approval shall be consistent with the preliminary budget and any

revisions proposed by the Commission when the budget was passed from the Commission back to the PCAOB or explain any changes from the preliminary budget and/or such proposed revisions.

(3) In addition to amounts needed to fund disbursements during the budget year, a budget may reflect receipts in amounts needed to fund expected disbursements during a period not to exceed the first five months of the fiscal year immediately following the budget year (the working capital reserve), provided such amounts shall be disbursed only as specified in the following year's budget or in a supplemental budget approved by the Commission.

(4) In approving the budget the Commission may not change the amounts earmarked for programs, program areas, or activities, or any other aspects of the budget; provided, that if the budget is conditionally rather than finally approved, then the Commission may transmit to the Board such proposed changes as are consistent with

the preliminary budget and any revisions previously proposed by the Commission when it passed the budget back to the PCAOB. No proposed reduction or increase may be greater than that included in the preliminary budget and any revisions previously proposed by the Commission when it passed the budget back to the PCAOB.

(5) In the event the budget is conditionally approved by the Commission, the PCAOB shall have the opportunity to consider the changes proposed by the Commission and to vote again for final approval of the budget as amended. If this iterative process has not resolved differences between the Commission and the PCAOB by December 23, then the terms of the most recent conditional approval shall become final, and the budget shall be deemed finally approved.

(e) *Limitation on spending.* (1) The PCAOB shall not spend in a budget year more than the amount specified in the Commission-approved PCAOB budget for that year, regardless of the source of the funds, unless such expenses have been approved by the Commission through a supplemental budget request.

(2) Funds may be disbursed by the PCAOB only in accordance with the Commission approved budget, *provided however*, during the budget year the PCAOB may transfer amounts totaling not more than \$1,000,000 into or out of each program area without prior Commission approval. Further, the PCAOB shall not:

(i) Apply its resources in a manner not fairly implied in the Commission-approved budget and budget justification, such as to create programs to perform functions that are not, or to perform functions in a way that is not, fairly implied from the Commission-approved budget and budget justification, or

(ii) Eliminate programs described in the Commission-approved budget and budget justification.

(3) In the event that the Commission has not approved a budget for a PCAOB fiscal year before the beginning of that fiscal year, the PCAOB may spend funds from the reserve and continue to incur obligations as if the PCAOB budget or supplemental budget most

recently approved by the Commission were continuing in effect for that fiscal year.

(f) *Supplemental budget.* (1) The PCAOB may submit to the Commission a request for approval of a supplemental budget subsequent to Commission approval of the budget for the budget year in order to spend any amounts in excess of, or contrary to, the limitations described in paragraphs (e)(1) and (e)(2) of this section.

(2) To facilitate Commission review and approval, a supplemental budget shall include:

(i) Detailed information regarding the impact of the supplemental budget on each affected program area, including costs by cost category, project or activity;

(ii) A statement regarding how the supplemental budget facilitates the strategic and policy goals of the PCAOB;

(iii) Information indicating why the amount was not included in the budget for the current year, including a description of any subsequent and unforeseen events or circumstances necessitating the supplemental budget request;

(iv) Information indicating why the request should not or cannot be postponed until the next regular annual budget process; and

(v) The proposed source for the funds, including any offsets to be made elsewhere in the PCAOB's programs and activities.

(g) *Maintenance of records; reports.* (1) The PCAOB shall maintain, and make available to the Commission or Commission staff upon request, a strategic plan and records in reasonable detail that support each preliminary budget, budget, budget justification, supplemental budget and other report or communication in compliance with this section, including past and projected receipts, outlays, obligations, and employment levels.

(2) The PCAOB is required to maintain and, within 30 business days after the end of each fiscal quarter, to furnish to the Commission a report of its spending and staffing levels for the quarter just ended, comparing those levels to the levels in the Commission approved budget.

(h) *Publication of budget.* (1) Following submission of the PCAOB-approved budget to the Commission, such budget and budget justification, subject to any applicable exemption under the Freedom of Information Act, shall be made available to the public. Neither the Commission nor the PCAOB shall publish a preliminary budget, budget, budget justification, or any underlying materials in connection therewith, until such time as the budget is approved by the PCAOB and submitted to the Commission for its approval.

(2) Supplemental budgets shall be made public, following approval by the PCAOB and submission to the Commission, in the same manner as described in paragraph (h)(1) of this section.

(3) The Commission-approved budget shall be made available to the public at the time of such approval.

(i) *Waivers of rule provisions.* The Commission, in its discretion, may waive compliance with any provision of this §202.11.

[71 FR 42001, July 24, 2006. Redesignated at 75 FR 47451, Aug. 6, 2010]

## PART 203—RULES RELATING TO INVESTIGATIONS

### Subpart A—In General

Sec.

- 203.1 Application of the rules of this part.
- 203.2 Information obtained in investigations and examinations.
- 203.3 Suspension and disbarment.

### Subpart B—Formal Investigative Proceedings

- 203.4 Applicability of §§203.4 through 203.8.
- 203.5 Non-public formal investigative proceedings.
- 203.6 Transcripts.
- 203.7 Rights of witnesses.
- 203.8 Service of subpoenas.

AUTHORITY: 15 U.S.C. 77s, 77sss, 78w, 80a–37, and 80b–11, unless otherwise noted.

SOURCE: 29 FR 3620, Mar. 21, 1964, unless otherwise noted.

### Subpart A—In General

#### §203.1 Application of the rules of this part.

The rules of this part apply only to investigations conducted by the Com-

mission. They do not apply to adjudicative or rulemaking proceedings.

#### §203.2 Information obtained in investigations and examinations.

Information or documents obtained by the Commission in the course of any investigation or examination, unless made a matter of public record, shall be deemed non-public, but the Commission approves the practice whereby officials of the Divisions of Enforcement, Corporation Finance, Market Regulation and Investment Management and the Office of International Affairs at the level of Assistant Director or higher, and officials in Regional Offices at the level of Assistant Regional Director or higher, may engage in and may authorize members of the Commission's staff to engage in discussions with persons identified in §240.24c-1(b) of this chapter concerning information obtained in individual investigations or examinations, including formal investigations conducted pursuant to Commission order.

[58 FR 52419, Oct. 8, 1993, as amended at 59 FR 5945, Feb. 9, 1994; 73 FR 32227, June 5, 2008]

#### §203.3 Suspension and disbarment.

The provisions of §201.102(e) of this chapter (Rule 102(e) of the Commission's rules of practice) are hereby made specifically applicable to all investigations.

[29 FR 3620, Mar. 21, 1964, as amended at 60 FR 32823, June 23, 1995]

### Subpart B—Formal Investigative Proceedings

#### §203.4 Applicability of §§203.4 through 203.8.

(a) Sections 203.4 through 203.8 shall be applicable to a witness who is sworn in a proceeding pursuant to a Commission order for investigation or examination, such proceeding being hereinafter referred to as a *formal investigative proceeding*.

(b) Formal investigative proceedings may be held before the Commission, before one or more of its members, or before any officer designated by it for the purpose of taking testimony of witnesses and received other evidence. The