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## **Nasdaq Proposes New Listing Standard on Internal Audit Function**

The SEC has issued a notice of a proposed new listing standard filed by Nasdaq requiring that all listed companies establish and maintain an internal audit function.

### **Role and Purpose of Internal Audit Function**

The role of the new internal audit function would be to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal control. The proposal allows for the outsourcing of the internal audit function to any third party service provider other than the company's independent auditor. The audit committee would have sole responsibility to oversee the internal audit function, which responsibility could not be delegated to any other committee of the board. The audit committee would be required to meet periodically to review the performance of the function and it should also discuss with the outside auditor the internal audit function's responsibilities, budget and staffing.

Nasdaq proposed the new listing standard to ensure that listed companies are in a position to regularly review and assess their system of internal control and risk management processes for the purpose of identifying any weaknesses and implementing appropriate remedial measures. The listing standard is also intended to assist listed companies in meeting their obligations under the federal securities laws, and in particular under the provisions of the Securities Exchange Act of 1934 requiring such companies to maintain and evaluate the effectiveness of their internal control over financial reporting. The NYSE's Listed Company Manual already includes a comparable listing standard.

### **Effectiveness**

Each company listed on Nasdaq on or before June 30, 2013 would be required to comply with the proposed listing standard by no later than December 31, 2013. Companies listed after June 30, 2013 would be required to comply with the proposed listing standard prior to listing.

The proposal is open for comments until March 29, 2013.

For the SEC release on the Nasdaq proposed new listing standard see:  
<http://www.sec.gov/rules/sro/nasdaq/2013/34-69030.pdf>

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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