



California Corporate & Securities Law

Restatements Reported To California Board On Downward Trend Overall

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On June 30, 2002, President Bush signed the Sarbanes–Oxley Act into law (for a trip down memory lane, you can read Broc Romanek’s post reporting that momentous event [here](#)). Less than a month later, Governor Gray Davis signed [AB 270](#) (Correa) into law. AB 270, one of several California laws enacted in the wake of the financial crises in 2001–2002, focused on improving oversight of the accounting industry by the [California Board of Accountancy](#).

Among many other structural and regulatory changes, AB 270 imposed a requirement on licensees to report any restatement of earnings by an audit client. Cal. Bus. & Prof. Code § 5063(b)(1). The Board of Accountancy subsequently adopted an implementing regulation, 16 CCR § 59.

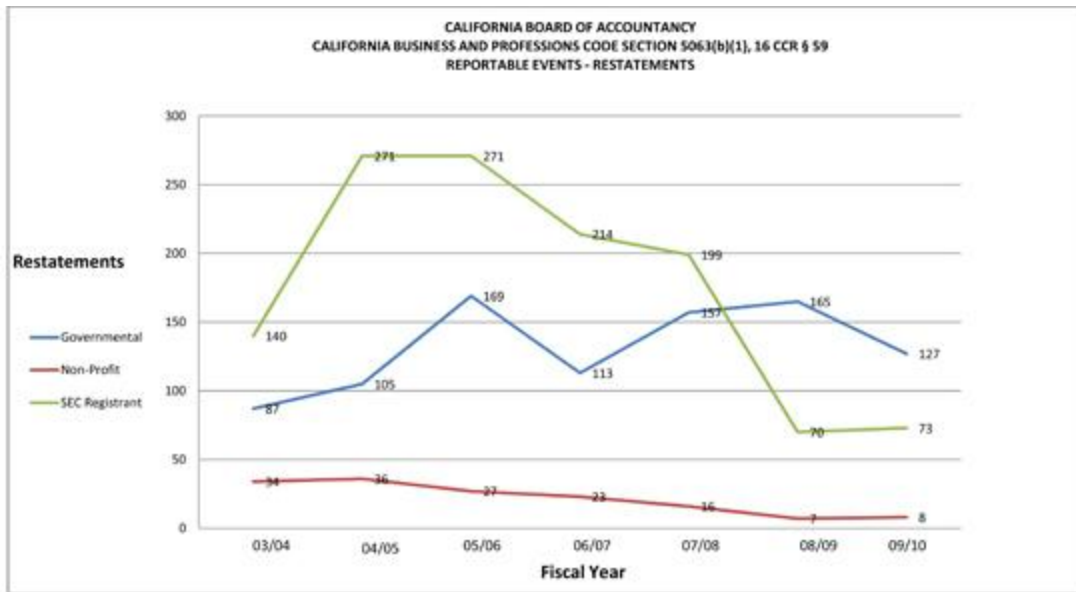
Since a number of years have gone by since AB 270 took effect, I asked the Board for the number of restatements reported to it. Based on the data provided to me, I created the graph below. Note that these data are presented on a state fiscal, not calendar, year basis (*i.e.*, July 1 to June 30). Also, § 5063(b)(1) and Rule 59 require reports with respect to the following three categories of clients:

- Publicly traded companies that are required to file a tax return with the [California Franchise Tax Board](#);
- Government agencies located in California; and
- Charitable organizations registered with the [Office of the California Attorney General’s Registry of Charitable Trusts](#).

Note that the triggers for reporting vary based on type of client. For example, a restatement with respect to a charitable organization is required when the restatement is issued for purposes of correcting any error in a previously issued financial statement and that has resulted in the filing of an amended or superceding Internal Revenue Service Form 990 or 990PF.

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Although the total number of restatements has declined for the last three fiscal years, we'll have to see whether this trend will be maintained in the current fiscal year.

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