



Here's a tip from the sixth edition of our popular publication [\*\*\*The Public Company Handbook\*\*\*](#), which is an easy-to-read guide that provides practical insights regarding legal and other board management issues facing public—or soon-to-be-public—companies.

The SEC has adopted a pragmatic definition of Audit Committee financial expert. Investment bankers, venture capital investors, stock analysts and others may qualify, along with finance professionals. An Audit Committee financial expert is a person who has all five of the following attributes:

1. Understands GAAP and financial statements;
2. Has the ability to assess the application of GAAP to accounting for estimates, accruals and reserves;

### 3. Has experience:

- Preparing, auditing, analyzing or evaluating financial statements with accounting issues comparable in breadth and complexity to those that can reasonably be expected to be raised in the company's financial statements; or

- Actively supervising someone engaged in those activities;

4. Understands internal control over financial reporting; and

5. Understands Audit Committee functions.

The Board must determine that an Audit Committee financial expert has developed the five attributes through any combination of:

- Education and experience as a CFO, principal accounting officer, controller, public accountant or auditor performing similar functions;

- Experience actively supervising a person in those positions;

- Experience overseeing or assessing the performance of companies or public accountants regarding the preparation, auditing or evaluation of financial statements; or

- Other relevant experience that the Board determines to be adequate (and which it must publicly disclose).

## Authors



### Jason Day

Partner

[JDay@perkinscoie.com](mailto:JDay@perkinscoie.com) [303.291.2362](tel:303.291.2362)

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