



Neuphoria Therapeutics Inc.

Audit Committee Charter

The Audit Committee (“Committee”) has been established as a committee of the board of directors (“Board”) of Neuphoria Therapeutics Inc. (the “Company”).

1. Introduction

This Charter governs the composition, membership, roles and responsibilities of Committee.

This Charter has been prepared to comply with the listing rules of Nasdaq and is subject to compliance with such rules, as they may be amended from time to time.

2. Objective

The purpose of the Committee is to assist the Board in fulfilling its corporate governance and oversight responsibility by:

- (1) monitoring and reviewing:
 - (a) the Company’s accounting and financial reporting processes and the integrity of its financial statements;
 - (b) the audits of the Company’s financial statements and the appointment (and, if necessary, removal), compensation, qualifications, independence, objectivity and performance of the Company’s independent auditors;
 - (c) the appropriateness of the accounting judgements or choices exercised by management in preparing the Company’s financial statements;
 - (d) the Company’s compliance with, and the effectiveness of the Company’s systems for ensuring compliance with, legal and regulatory requirements; and
 - (e) the performance of the Company’s internal audit function and internal control over financial reporting.
- (2) making recommendations to the Board in fulfilling its responsibilities relating to risk management and compliance practices of the Company.

The Committee’s performance of this oversight function does not relieve management of its responsibilities for preparing financial statements that accurately and fairly present the Company’s financial results and condition, nor the independent auditors of their responsibilities relating to the audit or review of financial statements.

3. Composition

3.1 Members

The Committee must consist of at least three directors.

The Board may designate a member of the Committee as the Chair, or if the Board does not do so, the members of the Committee will appoint a member of the Committee as Chair by a majority vote. The Committee Chair should not be the chair of the Board.

3.2 Independence

All members of the Committee must have been determined by the Board to be independent, as defined and to the extent required in the applicable rules of the U.S. Securities and Exchange Commission (*SEC*), and the Nasdaq listing standards for purposes of audit Committee membership. The definition of independence under the SEC rules and the Nasdaq listing standards is set forth in Annexure A.

3.3 Expertise

Each member of the Committee must be financially literate upon appointment to the Committee, as determined by the Board in accordance with the Nasdaq listing standards. At all times, there should be at least one member of the Committee who, as determined by the Board, is an “audit committee financial expert” as defined in the SEC rules (as set forth in Annexure B).

Members of the Committee must have an appropriate level of understanding of the principles of corporate governance.

3.4 Appointment and Eligibility

Subject to any requirements of the Nasdaq listing standards, the Board may appoint and remove members of the Committee. Members of the Committee will serve for such terms as the Board may fix, and in any case at the Board’s will, whether or not a specific term is fixed.

No director is eligible to serve on the Committee if he or she serves on more than two other public companies’ audit committees.

4. Meetings

4.1 Frequency

The Committee will meet at least quarterly, either in person or telephonically, and at such times and places as the Committee or its chairperson determines. The Committee will meet separately in executive session, periodically, with management as well as the outside auditor.

The Committee will report regularly to the Board with respect to its activities.

The Committee may also hold special meetings or act by circular resolution in lieu of a meeting. The Committee will meet separately and periodically with management (including the finance director and compliance officer), internal auditors (or other personnel responsible for the internal audit function) and independent auditors. To the extent the Committee deems necessary or appropriate, it will also discuss with the

Company's counsel any legal matters that may materially impact the Company's financial statements, internal control over financial reporting or compliance policies. In addition, the Committee may meet from time to time with any other persons, as it deems necessary or appropriate.

4.2 Procedures

The Committee may establish its own procedures, including the formation and delegation of authority to subcommittees, in a manner not inconsistent with this Charter, the Company's corporate governance documents and applicable law.

4.3 Quorum

A quorum for Committee meetings will be at least 2 members.

4.4 Minutes

Following each meeting, the Chair will report on any matter that should be brought to the Board's attention, and on any recommendation of the Committee that requires Board approval or action.

The Committee will keep written minutes of each meeting and deliver copies to the Corporate Secretary for inclusion in the corporate records.

4.5 Attendance

The Committee may invite any person to attend part or all of any meeting of the Committee as it considers appropriate. Voting at Committee meetings is restricted to members of the Committee and each Committee member will have one vote.

5. Committee Access and Information

The Committee has direct, independent and confidential access to the Company's independent auditors and to the Company's other directors, management and personnel to carry out the purposes of the Committee.

The Committee must be provided with all necessary access to the internal audit function without the presence of management.

The Committee will meet with the independent auditors, in the absence of management, as often as required, but not less than once a year.

6. Investigations

The Committee is authorized to conduct or authorize investigations into any matters relating to the purposes, duties or responsibilities of the Committee.

The Committee has the right to seek internal and external advice when it considers such advice necessary or appropriate in order to fulfil its responsibilities.

As the Committee deems necessary to carry out its duties, it is authorized to select, engage (including approval of the fees and terms of engagement), oversee, terminate and obtain advice and assistance from outside legal, accounting or other advisers or consultants.

The Company will provide for appropriate funding, as determined by the Committee, for payment of:

- (1) compensation to the independent auditors for their audit and audit-related, review and attest services;
- (2) compensation to any advisers engaged by the Committee; and
- (3) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

7. Responsibilities

7.1 Risk oversight and management policies

The Committee is responsible for providing the Board with advice and recommendations regarding the ongoing development of risk oversight and management policies that set out the roles and respective accountabilities of the Board, the Committee, management and the internal audit function.

The policies should cover the areas of oversight, risk profile, risk management, compliance and control and assessment of effectiveness.

7.2 Risk management and risk profile

The Committee is responsible for:

- (1) maintaining an up-to-date understanding of areas where the Company is, or may be, exposed to risk and compliance issues with legal and regulatory requirements and seek to ensure that management is effectively managing those issues;
- (2) reviewing the adequacy and effectiveness of the Company's policies and procedures which relate to risk management and compliance;
- (3) making recommendations to the Board on the appropriate risk and risk management reporting requirements to the Board and this Committee;
- (4) providing advice to the Board and the Chief Executive Officer (CEO) on relevant corporate level performance indicators and targets for risk management and compliance activities;
- (5) undertaking an annual review of risk management policy and underlying strategies and procedures to ensure its continued application and relevance;
- (6) if considered necessary by the Committee, establishing a periodic and independent review of the implementation and effectiveness of the risk management policy to provide objective feedback to the Board as to its effectiveness;
- (7) receiving and considering reports on risk management and compliance programs and performance against policy and strategic targets;
- (8) reviewing the adequacy of the Company's insurance coverage;

- (9) representing and assisting the Board in discharging its oversight responsibility relating to the accounting and financial reporting process of the Company and its subsidiaries, including the audits of the Company's financial statements and the integrity of the financial statements;
- (10) at least annually, considering the independence of the outside auditor, and, consistent with rules of the Public Company Accounting Oversight Board ("PCAOB"), obtain and review a report by the outside auditor describing any relationships between the outside auditor and the Company or individuals in financial reporting oversight roles at the Company, that may reasonably be thought to bear on the outside auditor's independence and discuss with the outside auditor the potential effects of any such relationships on the independence of the outside auditor;
- (11) reviewing and discussing with the outside auditor the matters required to be discussed by the outside auditor under Auditing Standard No. 1301, as adopted by the PCAOB and amended from time to time, including any problems or difficulties the outside auditor encountered in the course of its audit work and management's response;
- (12) meeting to review and discuss with management and the outside auditor the annual audited and quarterly financial statements of the Company (including the Company's specific disclosures under the "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections) and the independent auditor's reports related to the financial statements;
- (13) reviewing and discussing with any internal auditor of the Company: (i) the annual audit plan and the adequacy of the internal audit resources and (ii) the results of the internal audit program;
- (14) reviewing and discussing earnings press releases and corporate practices with respect to earnings press releases and financial information and earnings guidance provided to analysts and ratings agencies;
- (15) establishing and periodically reviewing policies and procedures for the review, approval and ratification of related person transactions (as defined in applicable SEC Rules), review related person transactions, and oversee other related party transactions governed by applicable accounting standards; and
- (16) examining any matters referred to it by the Board.

7.3 Internal Audit

The Committee will consider whether the Company should establish and maintain an internal audit function (which may be outsourced to a firm other than the Company's independent auditors). The Committee will oversee any internal auditors (or other personnel responsible for the internal audit function), who will report directly to the Committee. The responsibilities of the Committee include:

- (1) reviewing the results and effectiveness of the internal audit programs; and
- (2) recommending the scope of the internal audit for Board approval;

- (3) reviewing and approving the appointment and dismissal of senior audit executives;
- (4) ensuring the internal audit function is independent of the external auditor;
- (5) ensuring that the internal audit function has all necessary access to management and the right to seek information and explanations;
- (6) receiving summaries of significant reports to management prepared by the internal audit, the management response and the recommendations of the internal audit;
- (7) ensuring that no restrictions are placed on the internal auditors; and
- (8) ensuring the internal auditors are adequately resourced.

7.4 Independent auditors

The Committee has the sole authority and direct responsibility for the appointment, compensation, retention, termination, evaluation and oversight of the work of the independent auditors engaged by the Company for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company.

The independent auditors report directly to the Committee. The Committee's authority includes resolution of disagreements between management and the auditors regarding financial reporting and the receipt of communications from the auditors as may be required under professional standards applicable to the auditors.

The Committee must pre-approve all audit, review, attest and permissible non-audit services (including any permissible internal control-related services) to be provided to the Company or its subsidiaries by the independent auditors. The Committee may establish pre-approval policies and procedures in compliance with applicable SEC rules.

The Committee must obtain and review, at least annually, a report by the independent auditors describing:

- (1) the firm's internal quality-control procedures; and
- (2) any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

In addition, the Committee's annual review of the independent auditors' qualifications must also include the review and evaluation of the lead partner of the independent auditors for the Company's account, and evaluation of such other matters as the Committee may consider relevant to the engagement of the auditors, including views of Company management and internal finance employees, and whether the lead partner or auditing firm itself should be rotated.

The Committee will from time to time establish hiring policies that will govern the Company's hiring of employees or former employees of the independent auditors,

taking into account possible pressures on the auditors' personnel who might seek a position with the Company, and report these policies to the full Board.

7.5 Annual and quarterly financial reporting

As often and to the extent the Committee deems necessary or appropriate, the Committee will meet to review and discuss with appropriate members of management, the independent auditors and, if appropriate, internal auditors:

- (1) the annual audited and financial statements and quarterly financial statements of the Company;
- (2) oversee the preparation of the report of the Committee required by the SEC Rules to be included in the Company's annual proxy statement; and
- (3) management's assessment of internal control over financial reporting and, if required, the related report and attestation on internal control over financial reporting to be included in the Company's reports (as and when these reports are required under SEC rules).

7.6 Critical accounting policy report

The Committee will timely request and receive from the independent auditors (before the filing of any audit report) the report or update required pursuant to applicable SEC rules, concerning:

- (1) all critical accounting policies and practices to be used;
- (2) all alternative treatments within generally accepted accounting principles for policies and practices relating to material items that have been discussed with Company management, including ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditors; and
- (3) other material written communications between the independent auditors and Company management, such as any management letter or schedule of unadjusted differences.

7.7 Independence disclosure

The Committee will receive from the independent auditors all written statements and other communications relating to their independence from the Company that may be required under the then applicable rules governing independent auditors, including Independence Standards Board Standard No. 1 as set forth in Annexure C.

7.8 Auditor independence

The Committee will actively discuss with the independent auditors any disclosed relationships or services that may impact their objectivity and independence and take any other appropriate action to oversee their independence.

7.9 Material issues

To the extent the Committee deems necessary or appropriate, the Committee will discuss with the independent auditors any material issue on which the Company's audit team consulted the independent auditors' national office.

8. Other functions

8.1 Annual review of performance

The Committee will evaluate its performance as the audit committee on an annual basis.

8.2 Earnings releases and other financial guidance

The Committee will discuss with management earnings press releases and other published financial information or guidance provided to analysts and rating agencies. This may be conducted generally as to types of information and presentations, and need not include advance review of each release, other information or guidance.

8.3 Code of conduct

The Committee will oversee the Company's code of conduct as set out in the Company's code of conduct, and as may otherwise be delegated from time to time to the Committee by the Board.

8.4 Complaints and anonymous submissions

The Committee will establish and maintain procedures for:

- (1) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
- (2) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

If the Committee or the Board so determines, the submission procedures may also include a method for interested parties to communicate directly with the Chair of the Board or with the non-executive directors as a group.

8.5 Related party transactions

It is the Company's policy that the Company will not enter into related party transactions, unless the Committee or another independent body of the Board first reviews and approves the transactions in accordance with the SEC rules and the Nasdaq listing standards.

8.6 Internal control over financial reporting

The Committee will periodically discuss and review, as appropriate, with the internal auditor, management and the independent auditors:

- (1) the design and effectiveness of the Company's internal control over financial reporting; and

- (2) any significant deficiencies or material weaknesses in that internal control, any change that has materially affected or is reasonably likely to materially affect that internal control (including special steps adopted in light of such a deficiency or weakness), and any fraud (whether or not material) that involves management or other employees who have a significant role in that internal control, that have been reported to the Committee.

8.7 Outside advisors

The Committee will have the authority to retain such outside counsel, accountants, experts and other advisors as it determines appropriate to assist it in the performance of its functions and will receive appropriate funding, as determined by the Committee, for the payment of compensation to any such advisors and for the payment of ordinary administrative expenses that are necessary or appropriate in carrying out the Committee's duties.

8.8 Reports from legal counsel

The Committee will review and take appropriate action with respect to any reports to the Committee from legal counsel for the Company concerning any material violation of securities law or breach of fiduciary duty or similar violation by the Company, its subsidiaries or any person acting on their behalf.

8.9 Other reviews and functions

The Committee, as it may consider appropriate, may consider and review with the Board, management, internal or outside legal counsel, the independent auditors or any other appropriate person any other topics relating to the purposes of the Committee that may come to the Committee's attention. The Committee may perform any other activities consistent with this Charter, the Company's corporate governance documents and applicable listing standards, laws and regulations as the Committee or the Board considers appropriate.

9. Reports

The Committee will timely prepare the audit committee report required to be included in the corporate governance section of the Company's reports required under the SEC rules and Nasdaq listing rules.

The Committee will report to the Board annually the overall results of its annual review of the independent auditors' qualifications, performance and independence and the annual review by the Committee of its own performance.

The Committee will report to the Board at the first Board meeting subsequent to each Committee meeting regarding the proceedings of each Committee meeting, the outcomes of the Committee reviews and recommendations and any other relevant issues.

The Committee will also provide additional reports to the Board as the Committee may determine to be appropriate and when requested by the Board, including review with the full Board of any issues that arise from time to time with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the independent auditors or the performance of the internal audit function.

10. Public availability of materials

This Committee must ensure that a copy of this Charter is made publicly available.

11. Review of the Charter

The Committee will review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board.

Adopted: [●], 2024

Definition of Independence under SEC Rules and Nasdaq Listing Standards

Definition of “independence” under SEC Rule 10A-3(b)(1), in relevant part:

- (i) Each member of the audit committee must be a member of the board of directors of the listed issuer and must otherwise be independent.
- (ii) In order to be considered to be independent for purposes of this paragraph, a member of an audit committee of a listed issuer that is not an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:
 - A. accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that, unless the rules of the national securities exchange or national securities association provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the listed issuer (provided that such compensation is not contingent in any way on continued service); or
 - B. be an *affiliated person* of the issuer or any subsidiary thereof.

The term *affiliate* of, or a person *affiliated* with, a specified person, means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified person.

- A. A person will be deemed not to be in control of a specified person if the person:
 - (i) is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting equity securities of the specified person; and
 - (ii) is not an executive officer of the specified person.
- B. Paragraph (A) above only creates a safe harbor position that a person does not control a specified person. The existence of the safe harbor does not create a presumption in any way that a person exceeding the ownership requirement in paragraph (A)(i) above controls or is otherwise an affiliate of a specified persons.

The following will be deemed to be affiliates:

- an executive officer of an affiliate;
- a director who also is an employee of an affiliate;
- a general partner of an affiliate; and
- a managing member of an affiliate.

Definition of “Independent Director” under Nasdaq Listing Rule 5605

“Independent Director” means a person other than an Executive Officer or employee of the Company or any other individual having a relationship which, in the opinion of the Company’s board of directors, would interfere with the exercise of independent judgment in carrying out

the responsibilities of a director. For purposes of this rule, “Family Member” means a person’s spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person’s home.

The following persons shall not be considered independent:

- (A) a director who is, or at any time during the past three years was, employed by the Company;
- (B) a director who accepted or who has a Family Member who accepted any compensation from the Company in excess of US\$120,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:
 - (i) compensation for board or board committee service;
 - (ii) compensation paid to a Family Member who is an employee (other than an Executive Officer) of the Company; or
 - (iii) benefits under a tax-qualified retirement plan, or non-discretionary compensation.
- (C) a director who is a Family Member of an individual who is, or at any time during the past three years was, employed by the company as an Executive Officer;
- (D) a director who is, or has a Family Member who is, a partner in, or a controlling Shareholder or an Executive Officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient’s consolidated gross revenues for that year, or US\$200,000, whichever is more, other than the following:
 - (i) payments arising solely from investments in the Company’s securities; or
 - (ii) payments under non-discretionary charitable contribution matching programs;
- (E) a director of the Company who is, or has a Family Member who is, employed as an Executive Officer of another entity where at any time during the past three years any of the Executive Officers of the Company serve on the compensation committee of such other entity; or
- (F) a director who is, or has a Family Member who is, a current partner of the Company’s outside auditor, or was a partner or employee of the Company’s outside auditor who worked on the Company’s audit at any time during any of the past three years.

IM-5605. Definition of Independence — Rule 5605(a)(2)

It is important for investors to have confidence that individuals serving as Independent Directors do not have a relationship with the listed Company that would impair their independence. The board has a responsibility to make an affirmative determination that no such relationships exist through the application of Rule 5605(a)(2). Rule 5605(a)(2) also provides a list of certain relationships that preclude a board finding of independence. These objective measures provide transparency to investors and Companies, facilitate uniform application of the rules, and ease administration. Because Nasdaq does not believe that ownership of Company stock by itself would preclude a board finding of independence, it is not included in

the aforementioned objective factors. It should be noted that there are additional, more stringent requirements that apply to directors serving on audit committees, as specified in Rule 5605(c).

The Rule's reference to the "Company" includes any parent or subsidiary of the Company. The term "parent or subsidiary" is intended to cover entities the Company controls and consolidates with the Company's financial statements as filed with the Commission (but not if the Company reflects such entity solely as an investment in its financial statements). In the context of the definition of Family Member under Rule 5605(a)(2), the reference to marriage is intended to capture relationships specified in the Rule (parents, children and siblings) that arise as a result of marriage, such as "in-law" relationships.

The three-year look-back periods referenced in paragraphs (A), (C), (E) and (F) of the Rule commence on the date the relationship ceases. For example, a director employed by the Company is not independent until three years after such employment terminates.

For purposes of paragraph (A) of the Rule, employment by a director as an Executive Officer on an interim basis shall not disqualify that director from being considered independent following such employment, provided the interim employment did not last longer than one year. A director would not be considered independent while serving as an interim officer. Similarly, for purposes of paragraph (B) of the Rule, compensation received by a director for former service as an interim Executive Officer need not be considered as compensation in determining independence after such service, provided such interim employment did not last longer than one year. Nonetheless, the Company's board of directors still must consider whether such former employment and any compensation received would interfere with the director's exercise of independent judgment in carrying out the responsibilities of a director. In addition, if the director participated in the preparation of the Company's financial statements while serving as an interim Executive Officer, Rule 5605(c)(2)(A)(iii) would preclude service on the audit committee for three years.

Paragraph (B) of the Rule is generally intended to capture situations where a compensation is made directly to (or for the benefit of) the director or a Family Member of the director. For example, consulting or personal service contracts with a director or Family Member of the director would be analyzed under paragraph (B) of the Rule. In addition, political contributions to the campaign of a director or a Family Member of the director would be considered indirect compensation under paragraph (B). Non-preferential payments made in the ordinary course of providing business services (such as payments of interest or proceeds related to banking services or loans by a Company that is a financial institution or payment of claims on a policy by a Company that is an insurance company), payments arising solely from investments in the Company's securities and loans permitted under Section 13(k) of the Securities Exchange Act ("Exchange Act") will not preclude a finding of director independence as long as the payments are non-compensatory in nature. Depending on the circumstances, a loan or payment could be compensatory if, for example, it is not on terms generally available to the public.

Paragraph (D) of the Rule is generally intended to capture payments to an entity with which the director or Family Member of the director is affiliated by serving as a partner, controlling Shareholder or Executive Officer of such entity. Under exceptional circumstances, such as where a director has direct, significant business holdings, it may be appropriate to apply the corporate measurements in paragraph (D), rather than the individual measurements of paragraph (B). Issuers should contact Nasdaq if they wish to apply the Rule in this manner. The reference to a partner in paragraph (D) is not intended to include limited partners. It should be noted that the independence requirements of paragraph (D) of the Rule are broader than Rule 10A-3(e)(8) under the Exchange Act (see below).

Under paragraph (D), a director who is, or who has a Family Member who is, an Executive Officer of a charitable organization may not be considered independent if the Company makes payments to the charity in excess of the greater of 5% of the charity's revenues or US\$200,000. However, Nasdaq encourages Companies to consider other situations where a director or their Family Member and the Company each have a relationship with the same charity when assessing director independence.

For purposes of determining whether a lawyer is eligible to serve on an audit committee, Rule 10A-3 under the Exchange Act generally provides that any partner in a law firm that receives payments from the issuer is ineligible to serve on that issuer's audit committee. In determining whether a director may be considered independent for purposes other than the audit committee, payments to a law firm would generally be considered under Rule 5605(a)(2), which looks to whether the payment exceeds the greater of 5% of the recipient's gross revenues or US\$200,000; however, if the firm is a sole proprietorship, Rule 5605(a)(2)(B), which looks to whether the payment exceeds US\$120,000, applies.

Definition of “audit committee financial expert”

Under Item 407(d)(5) of Regulation S-K, an “audit committee financial expert” means a person who has the following attributes:

- (1) an understanding of generally accepted accounting principles and financial statements;
- (2) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- (3) experience preparing, auditing, analysing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant’s financial statements, or experience actively supervising one or more persons engaged in such activities;
- (4) an understanding of internal controls over financial reporting; and
- (5) an understanding of audit committee functions.

A person shall acquire such attributes through:

- (1) education and experience as principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;
- (2) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- (3) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- (4) otherwise relevant experience.

Independence Standards Board Standard No. 1 - Discussions with Audit Committee

Standard

1. This standard applies to any auditor intending to be considered an independent accountant with respect to a specific entity within the meaning of the Securities Acts (“the Acts”) administered by the Securities and Exchange Commission. At least annually, such an auditor shall:

- a. disclose to the audit committee of the company (or the board of directors if there is no audit committee), in writing, all relationships between the auditor and its related entities and the company and its related entities that in the auditor’s professional judgment may reasonably be thought to bear on independence;
- b. confirm in the letter that, in its professional judgment, it is independent of the company within the meaning of the Acts; and
- c. discuss the auditor’s independence with the audit committee.

Effective Date

2. The above communications are required with respect to audits of companies with fiscal years ending after July 15, 1999, with earlier application encouraged. Auditors and audit committees of first-time registrants shall have these communications prior to the company’s initial offering of securities to the public. These communications shall cover all audits of financial statements for periods subsequent to the effective date of this standard, included in a registration statement for an initial public offering of securities, whether performed by the current or a predecessor auditor.

Official Comment

3. In adopting this standard, the Board does not intend that an isolated and inadvertent violation of the standard’s requirements would constitute a per se impairment of the auditor’s independence, provided that the auditor is in compliance with all other independence rules. The Board believes, however, that in such circumstances the auditor must remedy violations of the standard’s requirements promptly upon discovery.