

REMARKS BY CHAIRMAN ARTHUR LEVITT
OPEN MEETING ON PROPOSALS TO MODERNIZE
AUDITOR INDEPENDENCE RULES
JUNE 27, 2000

Good morning. The Commission meets today to consider modernizing the rules that govern the independence of the auditors of financial statements used by investors.

In the last six decades, trust in the judgment of the public accountant has helped lay the foundation for the most vibrant and resilient capital markets in the world. That trust is dependent on the fact *and* appearance of the auditor's independence from the client.

Without confidence in an auditor's objectivity and fairness, how can an investor know whether to trust the numbers? Sound and verifiable numbers are to financial markets what oxygen is to breathing. Our financial markets simply cannot work without access to strong, high-quality financial reporting.

In recent years, the accounting profession has undergone tremendous change. More dual-career families, increasing mobility among professionals, and greater employment by audit clients of their auditors' partners, staff and spouses necessitate a review of the financial and employment relationship rules.

Consider the two-income couple: one spouse works at a bank where the compensation includes company stock in a 401 (k) plan. The other spouse is a partner at an auditing firm – the same firm that audits the bank. Though the audit partner doesn't work on any financial institution clients – let alone her husband's employer – under current profession rules, the couple would be prohibited from receiving these shares. Does that make sense today?

At the same time, consolidation, product line expansion, and globalization are fundamentally altering firm structures and revenues. As the biggest accounting firms have transformed themselves into multi-disciplinary professional service organizations, the debate over the role of the auditor – and the inherent pressures of practicing within a firm offering clients a range of non-audit services – has become more pressing.

These developments call for a significant and comprehensive re-examination of the rules that govern independence. At a time when more Americans' economic futures are tied to the underlying health and resiliency of our capital markets, the Commission and the profession must work together to ensure that the auditor independence requirements are both effective and fair.

In recent weeks, much has been done to strengthen our collective commitment to the value of independence. Earlier this month, all of the Big 5 firms and the Commission agreed to a voluntary program to report past violations of the independence rules in exchange for safe-harbor protection for all but the most serious violations. The firms also are aggressively moving to install quality control systems to help prevent future independence violations. Each of the Big 5 should be commended for their public-spirited action.

The profession is also working constructively with the Public Oversight Board -- an entity charged with oversight of accounting firms -- to improve the self-regulatory framework of the profession. Over the next few weeks, if not days, I am hopeful a strengthened and independent POB will begin to take shape and be implemented with the profession's full support.

This is an important time to build on these efforts. The proposals and questions outlined in today's release all revolve around a fundamental issue: what constitutes independence? It is a subject that has long been debated and analyzed; one in which reasonable people hold quite different views.

I believe this release strikes a balanced and reasonable approach. It is rooted in four irreducible principles that help define an auditor's independence. An accountant is not independent when the accountant has a mutual or conflicting interest with the audit client, audits his or her own work, functions as management or an employee of the audit client, or acts as an advocate for the audit client. These principles are consistent with the ethic and tradition of auditor independence.

There may be some in the profession who will support the general direction of today's release. There will be some who won't. Regardless, I hope both sides of the issue will see this rulemaking process, which will include public hearings, as a real opportunity for a meaningful, open, and necessary dialogue on an issue that has lingered unresolved for far too long.

Before I turn to Lynn Turner, the Commission's Chief Accountant, and David Becker, our General Counsel, I want to recognize the tireless work of the staff. To the Office of the Chief Accountant, to many of you in the General Counsel's office, as well as those of you in the Economic Analysis, Enforcement, Investment Management, Corporation Finance, and Market Regulation you have every reason to feel proud of a job more than well done. I thank you for your collective and individual dedication.