

*U.S. House of Representatives
Committee on Commerce
Room 2125, Rayburn House Office Building
Washington, DC 20515-6115
August 2, 2000*

The Honorable Arthur Levitt
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Chairman Levitt:

We are writing to comment on a proposed rule of the Securities and Exchange Commission, Revision of the Commission's Auditor Independence Requirements (File No. S7-13-00). We request that this letter be placed in the public comment file for that proposed rule.

We commend the Commission for taking steps to update the antiquated and unworkable restrictions on investments held by auditors. We believe the restrictions as they currently exist are a trap for the unwary, and have the effect of penalizing families in which both husband and wife are working. Given the importance of the contribution of professional women to our country, rules penalizing those contributions should be eliminated.

We have significant concerns with the Commission's proposals on restricting the services offered by accounting firms. Those concerns are both procedural and substantive.

Procedurally, we note that the Commission chose a 75-day comment period for this rule. We believe the comment period will not provide sufficient time for careful consideration of the some 400 questions contained in the proposal. These proposals are nuanced and complex. Auditors have worked effectively for decades without these proposed restrictions. We believe there should be no rush to impose significant restrictions on the ability of accountants to sell their services.

In addition, the Commission has asked for public comment on several possible alternative scope of services rules, ranging from a complete ban to a disclosure requirement. This seems to be more in keeping with the gathering of information in a concept release, rather than proposed rules with significant effects on the ability of the accounting profession to provide services necessary for effective audits.

We are greatly concerned that the Commission has failed to engage in the required cost-benefit analysis of major rules required by Section 3(f) of the Securities Act (and corresponding provisions in the Exchange Act and Investment Company Act as amended by the National Securities Market Improvement Act of 1996). Instead, the Commission has requested public comment on cost and benefits of the proposed rules. Although public comment on cost and

benefits is appropriate, it does not relieve the Commission of the responsibility of conducting an independent and rigorous cost benefit analysis on its own. Additionally, any reasoned public comment on cost and benefits will require adequate time for thorough data collection and analysis.

Any rulemaking of such major impact to the capital markets and the accounting profession should only be considered through a fair and deliberative process that provides a meaningful opportunity for participation by the public. A 75-day comment period does not meet that standard. We are confident the Commission has not pre-ordained the result of the rulemaking and is not intent on promulgating a final rule on some arbitrary schedule. Accordingly, we suggest the comment period be extended to 180 days.

Substantively, we do not believe there has been a showing that the provision of consulting services by accounting firms in any way compromises the independence of accounting firms. In a compendium of studies contained in the 1996 GAO Report, *The Accounting Profession: Major Issues; Progress and Concerns*, reviewed studies including, but not limited to, the Cohen Commission, the Public Oversight Board, the Treadway Commission and the SEC staff on the potential effects on auditor-client relationships of accounting firms providing consulting services to their audit clients. The GAO Report stated:

None of these studies, reported any conclusive evidence of diminished audit quality or harm to the public interest, or any actual impairment of auditor independence, as a consequence of public accounting firms providing advisory or consulting services to their clients.

We believe restrictions on the provision of consulting services by accountants may have the perverse effect of diminishing audit quality by both depleting accounting firms of needed expertise and encouraging accountants to pursue other career opportunities where they can more fully use their skills. Accordingly, we counsel to heed the sage advice “first do no harm.” Proceed cautiously and deliberately in this area. When Congress passed the securities laws, it expressly chose a system of disclosure over a system of proscription. We believe the tradition of disclosure rather than prohibition has served the economy well. Furthermore, if the Commission believes rules are warranted in this area, we believe it should do no more than encourage the disclosure of consulting relationships by accountants with their audit clients.

Sincerely,

Tom Bliley
Chairman

Mike Oxley
Chairman
Subcommittee on Finance
and Hazardous Materials

Ed Towns
Ranking Member
Subcommittee on Finance
and Hazardous Materials