AICPA

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June 2, 1988

Mr. Edmund Coulson
Chief Accountant
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Ed:

Thank you for your letter of March 28 inviting our comments on initiatives concerning disclosure of changes in registrants' certifying accountants. The Institute has given serious consideration to your suggestions and wishes to make several observations.

We have asked the Executive Committee of the SEC Practice Section to consider the adoption of a rule that would require every auditor to communicate to the Commission, in all instances where his relationship with a registrant client has terminated, the fact of such termination. We envision that any such requirement would view the auditor's obligation as being governed by the same deadline as the registrant's obligation to file Form 8-K, whether or not that time period is modified by new regulations. Although some auditors of public companies do not belong to the SECPS, that vast majority of registrants -- over 90 percent -- are audited by members. Thus, the device of an SECPS membership requirement would adequately reach those whose compliance is required.

We have considered the possibility of requiring disclosure to the Commission under a new interpretation of an existing Statement on Auditing Standards or under a newly enacted SAS. On the basis of our initial analysis, neither of these alternatives seemed prudent, because it appeared to the Institute that a direct disclosure requirement (1) would not derive reasonably from any existing SAS and (2) would not be the sort of obligation that is typically imposed by an SAS. Nevertheless we will continue to examine whether there are means available to make a direct reporting requirement universally applicable to auditors of all SEC registrants.

The Institute strongly believes that any requirement of direct disclosure to the Commission of termination of the auditor-registrant relationship should not attempt to restrict reports to specific circumstances resulting in termination or ask the auditor to characterize those circumstances. The filing of such reports by auditors only when the registrant has not filed a timely Form 8-K essentially shifts to the auditing profession the burden of ascertaining compliance by registrants with the applicable SEC regulations. As a practical matter, the Institute believes that the Commission is much better equipped to perform this task in a coherent and efficient manner than are the hundreds of practice units to which a selective program would assign the responsibility.

Moreover, our outside counsel have advised us that selective disclosure, regardless of the criteria for selection, may expose professionals to unnecessary litigation risks. For example, an auditor who does file may face a defamation claim by his former client, while an auditor who, believing his former client to have filed a Form 8-K, does not file may later face actions brought by shareholders or creditors of the registrant claiming that the auditor's failure to file breached a duty and thereby caused them damages. Notwithstanding our view that such actions, by either registrants or shareholders and creditors, would fail to state cognizable claims in almost all instances, the costs of defense and the burdens and risks of litigation make this course unacceptable in the absence of significant benefits to the public interest from a regime of selective disclosure, which we at present cannot identify.

We would be pleased to discuss these matters at your convenience.

Very truly yours,

Philip B. Chenok
President

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