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U.S. House of Representatives  
Committee on Commerce

Room 2125, Rayburn House Office Building  
Washington, DC 20515-6115

May 10, 2000

JAMES E. DERDERIAN, CHIEF OF STAFF

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

Dear Chairman Levitt:

In December 1936, SEC Chairman James Landis publicly complained: "The impact of almost daily tilts with accountants, some of them called leaders in their profession, often leaves little doubt that their loyalties to management are stronger than their sense of responsibility to the investor." After resigning as chairman, Mr. Landis expressed a more pointed view in a March 1939 letter: "What is really needed is a good spanking for the accountants as a whole." I commend you for delivering that spanking this morning in the form of your "Renewing The Covenant With Investors" speech at New York University. I hope it's not too little, too late. You have my wholehearted support and any assistance you need in getting the needed reforms in place. There is too much at stake.

I also want to acknowledge your February 10, 2000 letter transmitting SEC Chief Accountant Lynn Turner's January 19, 2000 report on your agency's auditor independence initiatives, both of which I am publicly releasing today. In responding to my critical January 6 letter, Lynn Turner indicated that in December 1999 he had asked the Public Oversight Board to undertake a review of the adequacy of its peer review process as it relates to testing of firms' compliance with auditor independence regulations. He also asked the POB to undertake a review of the major firms' compliance with SEC and professional independence regulations, in the wake of the PricewaterhouseCoopers debacle. The POB undertook to do those reviews. The good news is that in February the AICPA announced the establishment of mandatory quality control system requirements for its members to enhance auditor independence. The bad news is that on May 1, the Financial Executives Institute wrote to Turner demanding that the SEC refrain from further historical review of independence matters. PwC gets put under the magnifying glass but everybody else gets a free pass. And on May 3, the director of the AICPA's SEC Practice section wrote to the Executive Director of the POB (copy attached) saying that it "will not approve or

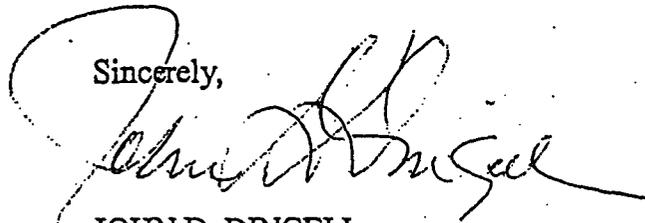
The Honorable Arthur Levitt, Jr.  
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authorize payment for invoices submitted by the [POB] or its representatives that contain charges for the special reviews" nor will it meet with POB to devise an acceptable work plan. The AICPA's behavior is beyond outrageous and only confirms my darkest suspicions that they and the firms have something to hide. Perhaps they would rather be on the receiving end of SEC subpoenas? I am asking the General Accounting Office to update the auditor independence chapter and appendix in its 1996 report, The Accounting Profession: Major Issues: Progress and Concerns (GAO/AIMD-96-98, September 24, 1996). They'll probably get the door slammed in their faces too. In light of the failure of the profession's self-regulatory system, I think we need to give serious thought to GAO's recommendation (p. 58) that we amend the federal securities laws to beef up the role of corporate audit committees.

Lastly, I cannot urge you strongly enough to proceed apace with your review of the existing complex overlapping network of independence rules. There are many barnacles that need to be removed. I also strongly urge you to hold public hearings on these issues. At the end of the day, however, Arthur, the integrity of the profession has to be that of Caesar's wife, not that of Jezebel. No one has expressed this concept more clearly than the United States Supreme Court:

The independent public accountant performing this special function owes allegiance to the corporation's creditors and stockholders, as well as the investing public. This public watchdog function demands that the accountant maintain total independence from the client at all times and requires complete fidelity to the public trust. [United States v. Arthur Young, 465 U.S. 805, 817-818 (1984)]

Sincerely,



JOHN D. DINGELL  
RANKING MEMBER

Enclosure