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The Honorable Arthur Levitt
Chairman
Securities and Exchange Commission
450 5th Street NW
Washington, DC 20519

Dear Arthur:

In connection with its oversight of the securities markets, the Committee has a number of questions relating to accounting practice. Pursuant to Rules X and XI of the U.S. House of Representatives, please respond to the following questions:

1. What empirical evidence, studies or economic analysis does the SEC possess that demonstrates accounting firms having consulting relationships with audit clients are less independent than those firms that do not have such relationships? Are there any specific administrative findings that have concluded the provision of consulting services resulted in a specific audit failure by the same firm?
2. What empirical evidence, studies, or economic analysis does the SEC possess that demonstrates accounting firms providing tax advice to audit clients are less independent than those firms that do not provide such advice? Are there any specific administrative findings that have concluded the provision of tax advice resulted in a specific audit failure by the same firm?
3. What are the investment restrictions to which employees of the SEC are subject? How are they different from restrictions placed on accountants? What is the rationale for those differences? Is there evidence that share ownership by SEC personnel compromises their independence or ability to discharge their duties in accordance with the public interest? What are the similarities in access to material non-public information shared with auditors and with the SEC staff reviewing statements filed with the Commission? Estimate the number of violations that would exist if the stock restrictions applicable to the accounting profession were to be applied to the SEC and its staff on January 2, 2000.

U.S. House of Representatives
Committee on Commerce

Room 2125, Rayburn House Office Building

Washington, DC 20515-6115

April 17, 2000

The Honorable Arthur Levitt

April 17, 2000

Page 2

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2/12

4. You and members of the Commission staff have suggested a new regulatory oversight and disciplinary process for the accounting process be adopted. Is the SEC developing recommendations on this proposal? How would the SEC receive input on its recommendations? Under what specific grant of statutory authority would the SEC propose to implement these recommendations?
5. We understand the SEC has expressed its views on the question of independence primarily in interpretive guidance or no action letters issued by the staff. Have the policies in this interpretive guidance ever been subject to rulemaking subject to notice and comment? Identify all guidance which was adopted by rulemaking and the date of consideration and adoption.
6. Members of the SEC staff have publically supported restricting the scope of services offered by accounting firms to audit clients beyond current restrictions such as the prohibition on audit firms acting in a management capacity for audit clients. Are such considerations currently under consideration by the SEC or the staff? How would the SEC receive input on and implement any such changes?
7. Under Section 3(f) of the Exchange Act and Section 2(b) the Securities Act, the SEC is required to consider efficiency, competition, and capital formation when engaging in rulemaking under the public interest standard. The legislative history accompanying these provisions, as well as a plain reading of the statute, makes clear a thorough cost benefit analysis performed by the office of the Chief Economist must be undertaken prior to any such rulemaking. Has the SEC commenced cost benefit analysis of proposed changes to limitations on the scope of services offered by accounting firms to audit clients? If so, what are the findings of this cost benefit analysis?
8. Regulation S-X provides that the SEC "will not recognize any certified accountant or public accountant who is not in fact independent." Has the SEC defined the principles by which it determines that an accountant is not in fact independent?"
9. Does the fact that audit firms are compensated for their services create an "appearance of conflict" problem? If direct compensation does not create an unacceptable appearance of conflict issue, how are more attenuated relationships between an auditor and its clients, such as the ownership of shares in an audit client by a spouse, child or son or daughter-in-law of an audit partner determined to be unacceptable violations of independence?
10. What is your view of the proper role of the SEC and its chief accountant regarding the Financial Accounting Standards Board's ("FASB") agenda? What is the proper role of the Commission and its Chief Accountant regarding FASB's deliberations on new GAAP rules? Please identify all non-public meetings between SEC personnel and members of the FASB or the FASB staff concerning recent proposals to change the accounting treatment of business combinations.

3/21

11. Identify all private sector committees, commissions, boards or other groups created at the request of the Commission or yourself during your tenure at the SEC. For each group, identify the method and criteria by which members of these boards were selected, including the role you played in selecting members. What is the legal status of each of these commissions or boards? What are the terms of existence of these boards and the terms of their constituent members?
12. In what ways did the SEC seek to influence the actions of the NASD and the NYSE as they considered the recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Audit Committees? Did SEC officials meet with self-regulatory groups charged with reviewing the recommendations regarding listing qualifications?
13. What is the status of SEC consideration of rules issued by the Independence Standards Board (ISB) last December relating to investments in mutual funds and related entities? Given the consideration of these rules would be made under a public interest standard, what specific criteria would the SEC use to reject a proposed ISB standard?
14. The SEC Chief Accountant stated the SEC intends to move forward with proposals to modify independence rules. Is it the SEC's intention to make recommendations to the ISB for action, or to undertake action outside the ISB process?
15. In the area of rules and guidance on auditor independence please indicate whether each of the following situations would be a violation of auditor independence. For those that are a violation, justify why the situation should be grounds for an independence violation:
 - A partner's spouse participates in an employer sponsored benefit plan that invests in securities issued by an audit client with which the partner has no direct contact or responsibility. The benefit plan is the only option offered to the spouse by the employer.
 - A partner's spouse participates in an investment club that owns 100 shares of stock of an audit client of the firm's Detroit office. The partner works out of the Seattle office and has no involvement with the client. The investment is not material to either spouse.
 - The son-in-law of a tax partner is the beneficiary of a blind trust that has a de minimis investment in an audit client of the firm's Boston office. The tax partner works out of the Atlanta office and has no involvement with the client.
 - A partner has a brokerage account with a securities firm that is not audited by the accounting firm. Cash in the brokerage account is automatically swept into a mutual fund that is audited by the firm's New York office. The partner works out of the

4/24

Denver office, provides no services to the mutual fund, and is unaware the mutual fund is a client.

- The grandparents of a partner's children purchase a share of stock in an audit client and hold the share pursuant to the Uniform Gift to Minors Act. The partner has no control over the purchase or disposition of the stock and does no work for the client.

For the following situations also indicate what alternatives the couples would have to come into compliance with independence restrictions.

- A partner's spouse is an executive at company A, and through the only reasonable employer benefit plan has holdings in the company. The partner works for a firm which audits company B, though neither the partner's office nor the partner perform any work for company B. Companies A and B merge and the spouse retains both holdings and employment. The holdings are material to the couple. The firm audits the merged company.
- The spouse of a partner works in a non-management capacity for a non-public company that is an audit client. The spouse has holdings in the company which are material to the couple. Neither the partner's office nor the partner perform any work for the company. The company goes public.
- A manager's spouse is promoted to CFO of an audit client company. Neither the manager's office nor the manager perform any work for the company. The manager is promoted to partner.
- A partner's spouse works for a company as a non-management employee and participates in the stock option and 401(k) program. Neither the partner's office nor the partner perform work for the company. Due to fluctuations in stock price, the value of stock in the company represents 5.1% of the couples net worth on particular days.

16. Accounting independence prohibitions were drafted at a time when few women worked outside of the home. Given the prevalence of women in the workforce, both as accounting partners and as workers, managers or executives in public companies, does the SEC agree current independence restrictions are outdated and in need of modernization? Do the restrictions as they stand discourage wives and daughters from participating in the workforce?

Please respond to these questions two weeks from the date of receipt of this letter. These responses will help to determine if hearings on the SEC's oversight of the accounting profession are warranted.

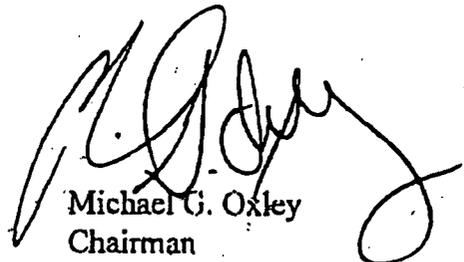
The Honorable Arthur Levitt
April 17, 2000
Page 5

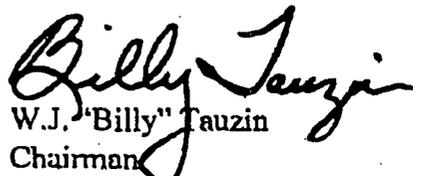
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5/24

Sincerely,


Tom Bliley
Chairman


Michael G. Oxley
Chairman
Subcommittee on Finance and
Hazardous Materials


W.J. "Billy" Tauzin
Chairman
Subcommittee on
Telecommunications,
Trade, and Consumer Protection

cc: the Honorable John D. Dingell