

**REPORT TO CONGRESS
AND
THE GENERAL ACCOUNTING OFFICE
PURSUANT TO
5 U.S.C. §801**

July 17, 2001

1. General Policy Statement Adopted by the Securities and Exchange Commission

On July 17, 2001, the Securities and Exchange Commission issued a policy statement that amended a previous policy statement, styled Financial Reporting Release (FRR) No. 50. This policy statement is hereby submitted to each House of Congress and to the Comptroller General pursuant to 5 U.S.C. §801. A copy of Securities and Exchange Commission Release Nos. 33-7993, 34-44557 and IC-25066, FR-50A is attached at Tab A.

2. Concise General Statement of the Policy Statement

The policy statement provides that the Securities and Exchange Commission ("SEC" or "Commission") will no longer look to the Independence Standards Board ("ISB" or "Board") for leadership in establishing and improving auditor independence standards applicable to auditors of the financial statements of Commission registrants. In light of the Commission's new auditor independence rules (which were sent to Congress pursuant to 5 U.S.C. §801 on November 21, 2000), the Commission believes that many of the issues that led to the creation of the ISB have been resolved, and that going forward the best method to assure the independence of auditors is for the Commission and its staff to enforce and interpret its new rules. In addition, the Commission notes the recent increase in public participation on the American Institute of Certified Public Accountants' ("AICPA") Professional Ethics Executive Committee ("PEEC"). The Commission staff, when appropriate, may work with the PEEC on discrete auditor independence issues. The Commission believes that working with PEEC on discreet issues provides an appropriate means to include the private sector in the process of maintaining and improving auditor independence requirements.

3. The Policy Statement is Not a Major Rule.

Based upon the following analysis, the Office of Management and Budget ("OMB") has determined that the policy statement is not major for purposes of 5 U.S.C. §804(2).

Annual Effect on the Economy. The policy statement will not have a \$100 million annual effect on the U.S. economy because many of the issues that led to the creation of the ISB have been resolved. Accordingly, because of the consolidation of the

independence requirements in one authoritative location, registrants and practicing public accountants will be able to better comply with the regulations applicable to public companies.

Major Increase in Costs or Prices. The policy statement will not increase costs or prices for consumers or individual industries, because standards previously adopted by the ISB and interpretations previously issued by the ISB will continue to be authoritative to the extent they do not conflict with the Commission's rules and interpretations. This policy statement, therefore, does not change the authoritative status of ISB standards and interpretations that were issued prior to the date of this policy statement.

Significant Adverse Effects on Competition or Investment. The Commission's de-recognition of the ISB should not have a negative effect on competition, investments, or innovation. The Commission's rule on auditor independence provides a comprehensive framework for dealing with both specific independence issues, and potential future conflicts.

4. Proposed Effective Date.

The general policy statement will become effective 30 days after publication in the Federal Register.

5. Cost-Benefit Analysis.

The Securities and Exchange Commission has not performed a formal cost-benefit analysis of the policy statement. Because the general policy statement does not create new legislative rules, we believe that the general policy statement does not impose any new costs not already imposed by the federal securities laws or existing independence requirements.

6. Regulatory Flexibility Act.

Since the release is a policy statement, the Regulatory Flexibility Act does not apply. See Section 553 of the Administrative Procedures Act.

7. Unfunded Mandates Reform Act.

The Unfunded Mandates Reform Act of 1995 is inapplicable to the Securities and Exchange Commission. See Public Law 104-4, Section 421(1), 109 Stat. 50.

8. Other Relevant Information.

The relevant sections of the Administrative Procedure Act have been satisfied. The Paperwork Reduction Act is inapplicable to the policy statement. The Securities and Exchange Commission is unaware of any other relevant information or requirements

under any Act or other relevant Executive Orders applicable to it that should be brought to the attention of the Congress or the Comptroller General in connection with this regulatory action.

ATTACHMENT

Tab A: Securities Act Release No. 7993 (July 17, 2001).