Congress of the United States

Washington, DC 20515

September 25, 2000

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

Dear Chairman Levitt:

We are writing concerning the Commission's proposed rules to limit the range of services provided by accounting firms. While we share your belief that auditor independence is critical to meeting the economy's need for reliable financial data, we are not convinced that this level of regulatory intervention is appropriate at this time.

Our greatest concern about the proposed regulations is the likely negative impact they will have on small businesses. Specifically, we are concerned that the proposed rule will force some accounting firms to eliminate certain services, making it more difficult for smaller businesses to obtain the professional assistance they need at a reasonable cost. The rule may also reduce competition and encourage the consolidation of the accounting industry. This will have the negative impact of raising audit costs, which will severely disadvantage small businesses that already experience difficulty affording necessary auditing services in the current market.

Both of these changes in the auditing profession will place small businesses at a competitive disadvantage with respect to larger businesses and, as a result, have a detrimental impact on the American economy.

The rule may also have the effect of depriving accounting firms of the ability and/or incentive to continue the development of services geared toward the needs of businesses in the information age economy. It is important that American businesses -- both large and small -- are not deprived of this important service in our modern, technology and information driven economy.

Finally, we are concerned that the proposed rule may have a negative impact on the quality of service provided to businesses. By requiring auditors to be "walled off" from the expertise now provided to them by non-audit professionals, the firms may produce less effective audits simply because they will not have access to pertinent information.

Small businesses are the engines that drive America's economy. They are largely responsible for the economic growth we our now experiencing. To go forward with the implementation of such a broad rule without a thorough review of the rule's impact on the nation's small businesses would be irresponsible. We urge you to delay moving forward with this rulemaking until the impact its implementation will have on small businesses is thoroughly studied.

Overall, we question the need for such a comprehensive rule. We believe that regulatory intervention of the degree proposed should be undertaken when there is clear evidence that a problem exists. However, a recent study by the Panel on Audit Effectiveness, which was created with the endorsement of the SEC, concluded that the accounting profession is fundamentally sound. The Panel also reported that it found no evidence that audit quality was compromised by the provision of non-audit services to an audit client. In light of these findings, it is difficult to understand the necessity for such a comprehensive rule.

Furthermore, we have serious concerns about the proposed rules assertion that the provision of non-audit services to audit clients represents a conflict of interest. The Commission's rule cites no empirical evidence or analytical studies that show a negative correlation between non-audit services and audit quality. In fact, a recent study conducted by a prominent panel of the Public Oversight Board, concluded that they were "not aware of any instances of non-audit services having caused or contributed to an audit failure or the actual loss of auditor independence."

We are also concerned that the Commission plans to proceed with a regulatory ban on various non-audit services in light of the fact that new disclosure requirements have only recently been put in place. Last year the Independence Standards Board adopted a requirement that auditors annually disclose to audit committees all relationships between the auditing firm and the client which might bear on independence. Similarly, the SEC and the major stock exchanges recently adopted new rules expanding disclosures in proxy statements regarding auditor independence.

Government imposed restrictions on the services offered by any business are contrary to the free market system. Therefore, we would be more comfortable with an approach that would give the recent market-based reforms time to work before imposing outright prohibitions on the marketplace.

From a procedural standpoint, we believe the 75-day comment period established for this rule will not provide sufficient time for careful consideration of the proposed regulations. In addition, this short comment period does not provide for the affirmative outreach that is mandated by the Small Business Regulatory Enforcement Fairness Act. These proposals are very complex. Auditors have worked effectively for years without these proposed restrictions, and we believe the Commission should be in no rush to impose significant restrictions without adequate comment and review. A rulemaking that will have the major impact that this proposal will, should only be considered through a thorough deliberative process that provides a meaningful opportunity for participation of the public. A 75-day comment period is not long enough to achieve that goal. Accordingly, we suggest the comment period be extended.

Mr. Chairman, for the reasons stated above, we urge you to reconsider the implementation of such a broad rule. At a minimum, we urge you to extend the comment period to December 31, 2001, and conduct a thorough analysis on how the rule will impact America's small businesses.

Sincerely,

Rep. Nydia M. Velázquez

Rep. Donald A. Manzullo

Rep. Juanita Millender-McDonald

Rep. Dan Burton

Rep. Danny K. Davis

Rep. Roscoe G. Bartlett

Rep. Carolyn McCarthy

Rep. Phil English

Rep. William Pascrell, Jr.

Rep. Tom Latham

Rep. Rubén Hinojosa

Rep. Thomas E. Petri

Rep. Donna Christian-Christensen

Rep. Robert A. Brady

Rep. Dennis Moore

Rep. Stephanie Tubbs-Jones

Rep. Charles A. Gonzalez

David Phelps
Rep. David D. Phelps

Grace F. Napolitano
Rep. Grace F. Napolitano

Rep. Brian Baird

Shelley Berkley
Rep. Shelley Berkley

Mark Udall
Rep. Mark Udall

Jay Inslee
Rep. Jay Inslee