



Securities Industry Association

120 Broadway, New York, NY 10271-0080, (212) 608-1500, Fax (212) 608-1604
1401 Eye Street, NW, Washington, DC 20005-2225, (202) 296-9410, Fax (202) 296-9775
info@sia.com, <http://www.sia.com>

September 25, 2000

Jonathan G. Katz, Secretary,
Securities and Exchange Commission,
450 Fifth Street, N.W., Stop 6-9
Washington, D.C. 20549.

Re: Proposed Rule Amendments on Auditor Independence – File No.
S7-13-00

Dear Mr. Katz:

The Securities Industry Association (“SIA”)¹ is pleased to submit this response to the Securities and Exchange Commission’s (“SEC” or the “Commission”) proposed rule amendments regarding auditor independence. SIA agrees with the Commission that independent auditors serve an important public trust. SIA believes that accounting statements must be accurate and that both investors and the securities industry must be able to rely on those statements. The proposed amendments and their accompanying release raise far-reaching and difficult public policy questions. However, SIA takes no position on these broad public policy questions that the Commission raises. We limit our comments to two items in the proposed rules, which raise three relatively straightforward issues of particular interest to securities broker-dealers. These are

- ❖ allowing employees of an accounting firm that audits a broker-dealer or mutual fund to have an account with the audit client, so long as the employee is not personally involved in the audit;

¹ SIA brings together the shared interests of more than 740 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. The U.S. securities industry manages the accounts of more than 50 million investors directly and tens of millions of investors indirectly through corporate, thrift and pension plans. The industry generates more than \$300 billion of revenues yearly in the U.S. economy and employs more than 600,000 individuals. (More information about SIA is available on its home page: <http://www.sia.com>.)



- ❖ permitting employees of accounting firms to invest freely in accounts that are protected by SIPC or private insurance; and
- ❖ avoiding inundating shareholders with unnecessary details in proxy materials about non-audit services provided by an issuer's outside auditor or its affiliates.

Proposed Rule 210.2-01(c)(1)(ii)(C).

When an accounting firm has a broker-dealer auditing client, Proposed Rule 210.2-01(c)(1)(ii)(C) would permit "covered persons" (e.g., the personnel involved in the audit) and their immediate families to have a personal account with the broker-dealer as long as the value of the assets in the account are fully covered by the Securities Investor Protection Act ("SIPC coverage"). The proposal is based on the common-sense conclusion that an auditor's independence cannot be reasonably viewed as impaired simply because a member of the audit team has an account with the audit client that is fully insured against any risk of the client's financial failure.

The Commission asks in its proposing release whether the proposed rule amendment also should accommodate accounts covered by private insurance on the excess over SIPC coverage. We believe the answer to that question is yes. Brokerage accounts that are not exposed to loss in the event of a broker-dealer's financial failure do not give the account holder an interest in the financial condition of the broker-dealer. The source of the protection against loss is immaterial to the analysis.

We therefore strongly support this suggested rule change, with the recommendation that it be expanded to recognize private insurance in excess of SIPC coverage. We urge adoption of this proposal regardless of the fate of the rest of the Commission's proposal. We also note that the proposed rule implicitly accepts the sensible principle that employees of the accounting firm that are not "covered persons" working on the audit should be under no restriction against having an account with the broker-dealer, regardless of whether the value of the account assets exceed SIPC or other insurance coverage. We recommend that the Commission make this point explicitly, either in a final rule or in an adopting release.

Proposed Rule 14a-101.

The proposed new proxy disclosure requirement, 240.14a-101, will add significant costs to issuers while requiring a level of detailed disclosure that we do not believe investors will find helpful. The Commission's stated goal is to provide investors with sufficient information "to make judgments about whether their interests have been adequately considered by the audit committee or whether the investors should make further inquiry." However, the level of detail is such that investors may find the disclosure more confusing than helpful. We question the benefit of "pushing" the elaborate disclosure required by this rule proposal onto investors, the vast majority of



whom are likely to find such highly itemized information an annoyance that makes proxy materials more difficult to digest.

Instead of requiring delivery of a morass of information to investors, with the attendant expense on issuers, we recommend that the Commission shape an approach that would make information on non-audit services readily accessible to investors who want it. One approach would be to require issuers to provide summary information in the issuer's 10-K filing, which is available to investors on the EDGAR system. Consistent with the Commission's proposal, this disclosure would include (i) aggregate amounts paid for non-audit services; (ii) a narrative description of the non-audit services; and (iii) an indication of whether the company's audit committee or, where no such committee exists, board of directors approved each service provided (if the service exceeded the *de minimis* amount specified in the Commission's proposed rule) and considered the effect that the provision of each service provided could have on the auditor's independence. If the Commission feels that more details should be accessible to investors who want such information, then it could require issuers to make detailed information available to investors on written request.

Thank you for providing SIA with an opportunity to comment on the proposed rules on auditor independence. If we can be of further assistance, please do not hesitate to contact the undersigned, or George R. Kramer of the SIA staff at 202/296-9410.

Sincerely,

Stuart J. Kaswell
Senior Vice President and
General Counsel

Cc: The Honorable Arthur Levitt, Chairman
The Honorable Isaac C. Hunt, Jr., Commissioner
The Honorable Paul R. Carey, Commissioner
The Honorable Laura S. Unger, Commissioner
John M. Morrissey, Deputy Chief Accountant
Scott Bayless, Associate Chief Accountant
John S. Capone, Chief Accountant, Division of Investment Management
David B.H. Martin, Director, Division of Corporation Finance
David Becker, General Counsel, Office of General Counsel