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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

January 17, 1990

Hon. Richard Breeden, Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Mr. Breeden:

The accounting profession is an important adjunct to the Federal financial services regulators, including the Securities and Exchange Commission, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. Recent reports indicate that the Federal bank regulators may be hesitating to take legal action, in their role as deposit insurer, against accounting firms because the regulator would be prevented from retaining these firms for other work while the suit is pending. Concerned that the Federal bank regulators may not be pursuing meritorious claims, we have written to the FDIC and the OTS to request information on this matter. A copy of this letter is attached.

We would like to obtain additional information regarding government supervision of the accounting profession. We understand that most, if not all, states regulate and supervise accountants. We would like to learn more about the role the Federal government plays in supervising accounting firms.

The Securities and Exchange Commission is the Federal agency with the greatest responsibility for the accounting profession. Accordingly, we would appreciate the Commission's response to the following questions.

1. How many Rule 2(e) actions did the Commission initiate in 1988 and 1989? Has the number increased or decreased over the last 5 years? How many of these actions resulted in sanctions against the accountant involved?
2. When the Commission takes a Rule 2(e) action, does it usually move against the entire accounting firm or individual accountants? How does the Commission decide how to proceed?
3. Has the Commission found Rule 2(e) actions to be an effective tool in supervising the accounting profession? Are additional tools or resources needed?

January 17, 1990

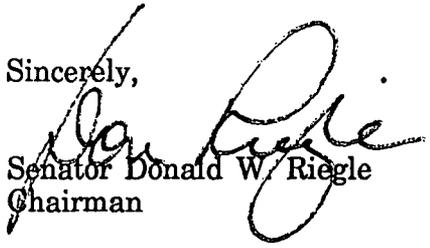
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4. Does the Commission bring litigation against accountants? Have such actions been successful?

5. Does the Commission believe that the accounting profession is adequately supervised?

We would appreciate your views at your earliest convenience.

Sincerely,



Senator Donald W. Riegle
Chairman