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May 18, 2000

OFFICE OF THE CHAIRMAN

The Honorable Arthur Levitt  
Chairman  
U.S. Securities & Exchange Commission  
450 Fifth Street NW  
Washington, D.C. 20549

Dear Chairman Levitt:

We read with interest your remarks at the New York University Center for Law and Business on auditor independence and oversight for our financial assurance system. We hope you know that our firms fully support your goal of preserving and strengthening confidence in the system and the professionals who provide assurances on which investors rely.

We agree with your observation that our profession today stands "at a pivotal moment in its history." You covered some of the evidence in your speech. However, we see a significant and growing need in our capital markets to provide more timely and relevant financial information to investors. We believe the resources and competencies necessary to meet the future demands for objective and independent verification of information and data will continue to expand. Cutting back on the scope and capabilities of our firms is not in the best interests of investor needs. We trust you recognize that there are powerful forces to consider in comprehensive discussions about auditor independence and scope of practice. Some of these factors, which shape our approaches to auditing and the competencies of our firms, include:

- The growing complexity of business organizations and products and services in an increasingly virtual world -- and the need for auditors to understand and respond to this complexity with competence.
- The increased business risks -- and thus heightened risks to the quality of financial reporting -- associated with globalization, emerging technologies and other megatrends. Our firms are required to understand these risks in order to provide meaningful assurance.
- The war for talent, and shrinking pool of young people interested in accounting careers. A perfect system will benefit no one if capable men and women do not find it appealing and rewarding.

We cherish the confidence that investors place in the quality of audit work. That confidence is based on the fact of high quality auditing, supported by valid evidence. Any policy to restrict the services provided by audit firms should likewise be founded on a factual basis.

We were pleased to hear you acknowledge that rules for financial investments are "overly strict," and "impose burdens on dual-career families without commensurate benefit to the investing public." We salute your intent to simplify and update financial interests and family relationship rules. As you are aware, all of us have committed substantial funding and begun to implement improved quality control systems announced by our profession in February. At the same time, we stand ready, individually and as a group, to continue discussions about productive approaches to assessing control effectiveness in order to further strengthen our systems.

We also want you to be assured of our continuing support for strong and truly independent oversight, and our commitment to continuous improvement of the Public Oversight Board's role, responsibilities and effectiveness. The POB already has wide authority and substantial influence over the conduct of our profession. Even without the sweeping new powers proposed in a recently circulated new draft charter, the POB has the ability to affect virtually all aspects of our profession, including scope of practice and compliance with independence matters. Accordingly, we do not believe that the POB needs new authority to provide effective oversight.

In your remarks, you described "ongoing industry resistance to the POB's plan." It is true that there are concerns about the draft charter, as would be expected at this early stage in the review process. We have had little time to evaluate and respond to the proposal. But we are committed to providing thoughtful and reasonable input, and hope the Commission will reserve final judgment until all points of view are heard.

We want you to be reassured that our concerns are not intended to discourage oversight improvement. Rather, they are intended to assure that the POB, consistent with its oversight mission, has the right focus, mandate and authority, and that its operations are well-managed with appropriate financial controls.

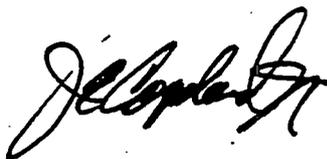
Our firms were instrumental in the creation of the POB, and have funded it at the levels requested since 1977. In addition, as you are aware, the five largest firms in the past year have paid thus far more than \$2.5 million – more than \$1 million above the original budget of approximately \$1.4 million -- to underwrite the POB's Panel on Auditing Effectiveness, which was convened at your urging. It is anticipated that the Panel's total costs may rise to \$3 million or more, which the large firms intend to pay. We stand behind our 23-year history of financial support for the POB and do not support any "cut-off" of their funding. We have worked constructively with the POB for that same period and, in light of continuing discussions, believe we will continue to do so in the future. For the POB to continue its effective role of public oversight, it must be just as independent from the SEC as it is from the profession. We support that independence, as well as financial accountability.

Again, we thank you for your continued efforts to improve financial reporting.

Sincerely,



Stephen G. Butler  
KPMG



James E. Copeland  
Deloitte & Touche



W. Robert Grafton  
Andersen Worldwide