

United States Senate
WASHINGTON, DC 20510
July 21, 2000

The Honorable Rod Grams
Chairman
Senate Subcommittee on Securities
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

We commend you for taking the initiative to hold a hearing on financial reporting in the New Economy. The hearing began exploration of the challenges that New Economy developments have placed on our traditional accounting standards and securities laws. Indeed, it appears that these standards and laws cannot fully represent the value of many companies in the New Economy. Business reporting is a critical subject that continues to deserve Congressional attention.

In addition to this insightful hearing, we respectfully request that you hold a hearing on the Securities and Exchange Commission's (SEC) proposed rulemaking on auditor independence. Although the SEC's proposal was discussed briefly at Wednesday's hearing, the SEC, industry representatives, and others should be provided a full opportunity publicly to debate the appropriateness of the rulemaking. As you know, the SEC's proposal seeks to change its requirements for determining whether an auditor is independent in light of, among other criteria, the scope of services provided by audit firms to their audit clients. The proposal identifies broad categories of non-audit services that auditors would be prohibited from providing to their audit clients. The SEC issued the proposal with a 75-day comment period, due September 25, 2000.

Because of the relatively short comment period for this proposal, the SEC could finalize the rule when Congress is not in session and, therefore, is constrained from exercising its traditional oversight authority. This especially concerns us because it appears that the SEC has not demonstrated a substantive basis for imposing these far-reaching limitations this year. The SEC would be limiting auditing firms' expertise just when auditors appear to need it most in order to fully assess today's sophisticated New Economy companies. The broader issues of the New Economy require further study by Congress before the SEC implements this rule. Therefore, we believe that it is wholly appropriate for a hearing on the SEC's proposal, and other New Economy business reporting issues. Thank you for your consideration of this important request.

Sincerely,

Evan Bayh

Charles Schumer

Robert F. Bennett