

United States Senate
WASHINGTON, DC 20510

October 4, 2000

The Honorable Arthur Levitt
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Room 6102
Washington, D.C. 20549

RECEIVED
ES 86384
OCT-4 PM 2:16
OFFICE OF THE CLERK

Dear Chairman Levitt:

During the September 28, 2000, Senate Banking Subcommittee on Securities hearing regarding the Securities and Exchange Commission's (SEC) proposed rulemaking on auditor independence, we raised an issue of critical importance to small businesses in our home states. Certified public accountants in small firms fear that many small businesses will be negatively impacted by this rule's restrictions on the types of services accounting firms may provide clients. We know that you are aware of this issue and as interested as we are in successfully easing these concerns.

Your written testimony states that the proposal "would have little, if any, impact on smaller accounting firms." Additionally, you stated during your oral remarks that you would "urge in the rule itself that this has no applicability to small firms that audit" non-public companies and that you intend to make sure that "whatever proposal comes, ha[s] a specific admonition" on this issue. We appreciate your intent, but also understand our constituents' fears that states may follow the SEC's lead and impose similar limitations on the types of services accounting firms provide even to their non-SEC registrant clients. While our state regulators and governing bodies exercise independence on certain issues and may not be forced to adopt the SEC's position on all matters, pressure may exist to codify rules consistent with SEC rulemakings. Furthermore, if the state's rules are silent on a given issue, states will frequently defer to the SEC's rule for guidance.

At last week's Subcommittee hearing, you expressed your willingness to clarify what steps the SEC intends to take to ensure this rulemaking does not adversely effect small businesses. We appreciate your efforts. It would be helpful if you would reply to the following questions in your response:

- (1) What actions has the SEC taken to examine and evaluate the impact its proposal will have on small businesses particularly given the aforementioned pressures imposed upon the state regulators and the deference granted to the SEC?
- (2) In what ways does the SEC anticipate its rulemaking will impact small businesses, including small accounting firms and businesses who seek professional services from these firms?

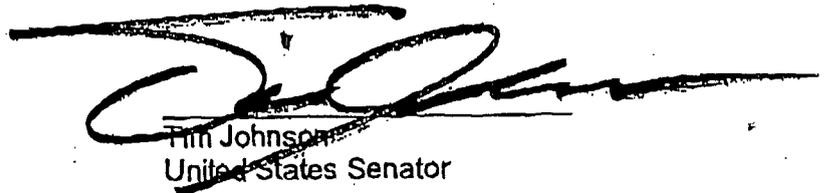
- (3) What steps is the SEC taking to assure that state accountancy boards and regulators understand the SEC's intention regarding applying its rules to clients that are not required to register with the SEC?
- (4) How many small businesses, organizations representing small businesses, individual state accountancy boards, and state regulators provided written comments during the SEC's public comment period? What percentage of these respondents were supportive of the proposed rulemaking, particularly provisions relating to firms providing their audit clients with non-audit services?
- (5) As quoted above from your oral testimony, you have stated that the SEC will make it clear in the rule that the SEC does not intend for the rule to apply to small firms auditing non-public companies. What language does the SEC propose to insert in the rule to fulfill this intention?

We look forward to hearing from you by Friday, October 13, 2000, and greatly appreciate your willingness to respond to our concerns. Thank you.

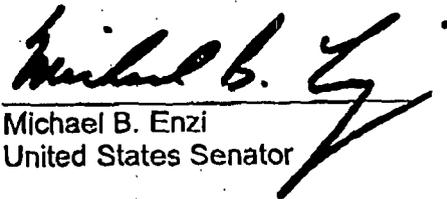
Sincerely,



Mike Crapo
United States Senator



Tim Johnson
United States Senator



Michael B. Enzi
United States Senator

MDC/cw