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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Rulemaking Docket Matter No. 017

Dear Board Members:

I am pleased to provide these comments on PCAOB Rulemaking Docket Matter No. 017, "Proposed Ethics and Independence Rules Concerning Independence, Tax Services, and Contingent Fees." I believe the proposal represents an appropriate balance between permission (with audit committee approval) for accounting firms to provide specified tax services while prohibiting those services that could create an actual or perceived independence problem. Thus, I support the issuance of a final rule in substantially the form proposed.

By way of background, I presently serve as Chairman of the Audit Committee for three large public companies: Kimberly-Clark Corporation, Legg Mason, Inc., and MCI, Inc. The views in this letter, however, are solely mine and should not be attributed to those companies.

I believe that audit committee members take very seriously their responsibility to pre-approve any non-audit services to be performed by the accounting firm engaged to perform the annual audit of a company's financial statements and internal controls. There are good business reasons to use a company's auditors to perform certain other services based on their knowledge of the company and other factors. At the same time, audit

committee members recognize that the independence of external auditors must be carefully protected. Some audit committees apparently will permit no non-audit services to be performed by the company's auditors in an excess of caution. And most audit committees probably will err on the side of non permission in any "close calls." But audit committees should be allowed to exercise professional judgment and approve non-audit services to be performed where there are business reasons to do so and the services in question would not undermine auditor independence.

I do have a couple of minor comments for your consideration as you debate a final rule on this matter.

Proposed Rule 3524(a)(i) calls for the accounting firm to provide certain information to the audit committee including "the engagement letter relating to the service." For a large, multi-national company, there may be dozens of separate projects requiring audit committee review and approval. If engagement letters must be submitted to the audit committee for each of these projects, the committee members would be faced with reading literally hundreds of pages of mostly boilerplate legal matters. You might respond that it isn't necessary for the committee members to read every page of every engagement letter but in these days of great scrutiny of corporate governance activities, I think it would be a bad policy to require submission to the audit committee of materials that they aren't expected to read.

I am not suggesting that engagement letters are unnecessary. It is a good practice for accounting firms and their clients to have a written understanding of any special project. And there will probably be cases where the audit committee will want to see the engagement letter, particularly if the project is for a large dollar amount or if the project is very unusual. However, I recommend that your final rule should require only that the accounting firm be required to submit a <u>summary</u> of each project. This should include a good description of the service involved, an explanation of why the services are compatible with independence rules, and the related fees.

Page 17 provides an explanation of the Board's reasoning with respect to the proposed rule on aggressive tax shelters. In the third paragraph on that page the explanation states that a firm would not be independent if it "planned, opined on, or marketed certain tax transactions to audit clients." Those words might be read literally to cause a firm to lose its independence for <u>all</u>

clients if it planned, opined on, or marketed certain tax transactions to any of its clients. Proposed Rule 3522 seems to make clear that the Board did not intend such a broad interpretation. Rather, I read the words of the proposed rule to say that independence concerns arise only if the inappropriate tax transaction is planned, opined on, or marketed to the individual audit client in question. Assuming that my interpretation is correct, I suggest that you review the words in the explanation section of the final rule to be sure that they can't be read to conflict with the actual rule.

Please let me know if you have any questions about my comments in this letter.

Sincerely,

Dennis R. Beresford