

Date

30 June 2003

Secrétariat
Général

des Experts
Comptables
Européens

1040 Bruxelles
Tél. 32 (0) 2 285 40 85
Fax: 32 (0) 2 231 11 12
E-mail: secretariat@fee.be

FEE

Mr Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street NW
USA-WASHINGTON DC 20549-0609

cc Mr J. Gordon Seymour, Acting General Counsel PCAOB

Dear Mr Katz,

Subject: Public Company Accounting Oversight Board: Notice of Filing of Proposed Rules Relating to Registration Systems (File n° PCAOB-2003-03)

I am writing to you in my capacity of President of the European Federation of Accountants (FEE - Fédération des Experts Comptables Européens). FEE represents 41 bodies of professional accountants from 29 countries. Details can be found on the FEE website www.fee.be. FEE represents the profession as a whole and not any particular type of audit firm.

FEE has a policy of supporting the efforts of the authorities in Europe continually to improve and develop financial reporting, audit and related enforcement. Therefore, we are also very supportive of the PCAOB efforts to establish itself and to fulfil its mandate. Confidence in the financial markets is a global issue and we strongly believe that regulators and standard setters in the US and in Europe should work together to achieve global solutions, which are by far preferable to national solutions when capital markets are getting more global. Global principles, criteria and standards are needed in globalised capital markets to ensure the consistent high quality of financial reporting, auditing and related enforcement.

FEE strongly supports the transatlantic regulatory dialogue between the European Commission, with the support of the Member States, and the US authorities, with a view to establishing principles and criteria for oversight, and such matters as inspection, investigation and discipline. We believe that the dialogue with European authorities should intensify in order to provide the PCAOB with a possible means of relying on home-country regulation as far as Europe is concerned, an approach which FEE considers will be the most consistent and effective in term of oversight and such matters as inspection, investigation and discipline.

FEE considered the amendments made by PCAOB to its draft rule after the first round of consultation and appreciates that the PCAOB has made an effort to address concerns expressed by us and others. To a certain extent, these amendments will avoid possible conflict of laws but unfortunately not in all areas identified in our comments to the PCAOB. Mainly, we are disappointed to observe that PCAOB did not take into consideration arguments put forward by us and many others in Europe that the requirement to register is unnecessarily burdensome and costly when the audit firm is subject in its

home country to similar obligations related to oversight, and such matters as inspection, investigation and discipline.

Even taking the amendments to the initial proposals of PCAOB into consideration, the extensive nature of the information sought in the registration process makes the practical collection and verification of it very challenging. For smaller firms, where such information might be thought to be more readily available, this is a major issue, as collection of all the data seems likely to require very extensive special exercises. If they have only a few clients registered with the SEC or are auditors to some significant subsidiaries of US registrants, they may prefer to withdraw from the engagements, where permitted, on the grounds of the disproportionate cost and effort involved. There is serious concern in FEE that this could lead to a concentration of the audit market. It could inhibit new entrants to what could easily become a very specialised audit market in Europe for SEC related work. This may have further distorting consequences for the market in audit services for EU listed companies generally and for prospective new issuers, which are not SEC registered but may wish to preserve the option of doing so at any point in future.

In particular, in some European countries there are joint audit appointments to listed companies, for example at present in Denmark and France. It is frequently the case that one of the four major firms is appointed together with a smaller firm. The proposed registration requirements may have a particularly severe impact on smaller firms in these circumstances.

Another specific concern relates to the situation of non-U.S. firms that are required to register because they play a substantial role in the preparation or furnishing of an audit report on a U.S. issuer. Such a requirement will also increase the risk of further concentration. We expect that this requirement arises from US practice; since under US GAAS auditors of consolidated financial statements may refer to the audit opinion issued by the auditors of the financial statements of subsidiaries. However, this is not considered a desirable practice under International Standards on Auditing (ISAs) and national auditing standards in Europe generally preclude division of responsibility.

FEE is concerned that if registration is applied to auditors in some countries in the EU, but not in others due to legal impediments or other reasons, this will have unforeseeable consequences for the reputation of the profession in the single EU market and could lead to public confidence in the uniform quality of audit in Europe being seriously undermined. We believe that such potentially harmful effects would not be likely to enhance confidence in audit in globalising markets. We therefore suggest that the scope for meeting the Board's requirements through agreed home country registration be further explored as a matter of urgency.

Consistent with the views expressed above, we are firmly of the belief that inspection is best conducted at national level and therefore that foreign public accounting firms should not be subjected to Board inspection. The Board could in our opinion rely on home-country inspection. This could, by agreement, include inspections extended to address compliance with US standards.

We understand that section 106 of the Sarbanes-Oxley Act permits exemption of foreign audit firms or any class of such firms, if in the public interest or for the protection of investors. This is a decision that can be made only by the PCAOB. However we anticipate that a prime consideration might be the quality of the audit infrastructure in the particular country from which the firm comes and we refer again to our earlier observations on the possibility of reaching agreement with European regulators on oversight, inspection and discipline. Such an approach might assist the PCAOB in making known its views on

appropriate principles and criteria for oversight and related arrangements and in considering whether to exercise its discretion in this respect.

Because of our support of the transatlantic regulatory dialogue and our firm belief that registration, oversight and inspections are most effective at home-country level and because of the legal and practical problems that initial consideration of the PCAOB's proposals have indicated, we think that a new substantial extension of time is warranted before any registration requirements are imposed on foreign audit firms. In this period the discussion with EU authorities should continue to explore the scope for home country registration and to establish the high level principles and conditions for effective oversight, enforcement, investigation, disciplinary systems and sanctions that would provide proper evidence that exemption and mutual recognition may be justified.

We trust that you will find our comments in this letter helpful. Please do not hesitate to contact us if you would like us to clarify any aspect of our comments.

Yours sincerely,

David Devlin
President