Grant Thornton International LLP

July 2, 2003

VIA ELECTRONIC MAIL

Jonathan G. Katz, Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549-0609

File no. PCAOB 2003-03
Proposed Rule: Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules Relating to Registration System

Dear Mr. Katz:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) proposed rule, *Registration System for Public Accounting Firms* as presented in the U.S. Securities and Exchange Commission's (Commission or SEC) File No. PCAOB -2003-03 (proposed registration rules).

On March 31, 2003, Grant Thornton International (GTI) provided a comment letter to the PCAOB on the proposed registration rules as set forth in PCAOB Release No. 2003-001. A copy of the letter is included in Attachment A for your review and consideration. Grant Thornton LLP agrees with the concerns raised by GTI and fully supports the comments made in the March 31 letter. We were pleased to see that some of our concerns relating to the timing of registering non-U.S. public accounting firms were addressed in the proposed registration rules adopted by the PCAOB.

During the past couple of months we have had additional time to study the rule requirements and to begin to gather the information required for the registration application. It has become clear to us from our experience to date with the registration process, that the rules could be clarified and revised in a number of respect to ensure consistent reporting between all public accounting firms. We also believe that the required reporting of any criminal proceeding (including misdemeanors) involving associated persons unrelated to their work for the firm or with the preparation of audit reports, is broader than the authority permitted by the Sarbanes-Oxley Act of 2002 (Act), and not relevant to the objectives of the PCAOB. We believe that certain clarifications and revisions would ensure consistency in the information reported to the PCAOB while allowing the rules to continue to be consistent with the intent of Congress in passing the provisions of the Act. We have limited our comments to the most critical areas we have identified.

Definition of Associated Entities

The definition of "associated entities" should be clarified to include only those entities that perform audits of issuers. Proposed Rule 1001(a)(iv) defines the term "associated entity" and further indicates that associated entities would include any "associated entity" as used in Rule 2-01(f)(2) of Regulation S-X that would be considered part of that firm for purposes of the Commission's independence rules. In Appendix 3, the Section-by-Section Analysis of the proposed rules, the PCAOB indicates that the term is meant to give the same meaning as in the Commission's auditor independence rules. However, the term "associated entity" is not defined in either Regulation S-X or the Commission's independence rules.

Because of the lack of a clear existing definition of associated entity, we suggest that the Commission define the term without reference to the Commission's rules or other similar rules. Further, we recommend that the definition of "associated entities" include only those entities that perform audits of SEC issuers. Many firms have related entities due to the local regulatory requirements within the countries they practice. For example, some countries only allow law firms to perform tax work. The majority of the entities do not perform audit services or other services for SEC issuers. Providing information regarding offices at which no audit reports are prepared for issuers is not likely to provide information relevant to the PCAOB's function of overseeing the audits of issuers.

We believe the clarification of "associated entity" in the above manner would also address the issue of whether organizations such as Grant Thornton LLP would need to report those non-U.S. firms that are considered "correspondents" within the GTI network of firms. Correspondent firms are not required to use the Grant Thornton name, follow our policies and procedures, including our audit approach, use our automated audit tools, etc. These entities operate very independently and are not controlled directly or indirectly by, or in common control with, GTI, and in fact, may represent other international firms within their own countries. These correspondent firms are not considered part of Grant Thornton LLP for purposes of the Commission's independence rules. We believe strongly that these correspondent firms do not meet the intent of the "associated entity", disclosure, but clarification in the definition would ensure consistent reporting of such entities by all public accounting firms.

Definition of Public Accounting

If the Commission does not revise the definition of "associated entity" to include only those firms that perform audits of SEC issuers, we would suggest that at a minimum, Item 1.6 of Form 1 - Application of Registration (Form 1) be revised to provide further guidance. Item 1.6 reads:

> State the name and physical address (and, if different, mailing address) of all *associated entities* of the applicant that engage in the *practice* of public accounting or preparing or issuing *audit* reports, or comparable reports prepared for clients that are not *issuers*. Do not include any person listed in Item 7.4

We have looked to the AICPA definition of public accounting for guidance. However, the overly broad definition provided under the Code of Professional Conduct, ET Section 92.25 states:

> Practice of public accounting. The practice of public accounting consists of the performance for a client, by a member or a member's firm, while holding out as CPA(s), of the professional services of accounting, tax, personal financial planning, litigation support services, and those professional services for which standards are promulgated by bodies designated by Council, such as Statements of Financial Accounting Standards, Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements on Standards for Consulting Services, Statements of Governmental Accounting Standards, and Statements on Standards for Attestation Engagements.
>
> However, a member or a member's firm, while holding our as CPA(s), is not considered to be in the practice of public accounting if the member or member's firm does not perform, for any client, any of the professional services described in the preceding paragraph.

The above AICPA definition, obviously written in the context of U.S. laws, still does not clarify for example, whether non-U.S. entities that perform tax related services, but are staffed by non-CPAs (attorneys and others), would be considered "associated entities" and required to be disclosed as such on the application. Further clarification on what constitutes the practice of public accounting is necessary to ensure consistent reporting by all firms.

Clarification of "Person associated with a Public Accounting Firm" and "Associated Person of a Public Accounting Firm"

Proposed Rule 1001(p)(i) defines "person associated with a public accounting firm" to include two categories of individuals: a proprietor, partner, shareholder, principal, accountant, or professional employee of a public accounting firm, or any independent contractor that, in connection with the preparation or issuance of any audit report (1) receives profits or compensation from the firm, or (2) participates as an agent on behalf of the firm. This definition should be clarified to mean both categories of individuals are included only if, in connection with the preparation or issuance of any audit report, they receives profits or compensation or participate as an agent.

With respect to those individuals who are employees of, or otherwise considered personnel of, the applicant, we urge the Commission to specify that the term "persons associated with a public accounting firm" extends only to the list of individuals noted above, whose services for the firm has some meaningful and significant relationship to auditing, accounting, and reporting issues that affect the financial statement audits. If the Commission is concerned that using this definition is unclear and imprecise, the definition could be interpreted to include those individuals that participate in the performance of audits and all managers, senior managers, directors, partners and principals of the applicant, regardless of assigned department within the firm (i.e. would include all tax managers, partners, etc., even if they do not participate in audits). This interpretation would capture all individuals that participate in audits for the firm and all other individuals with supervisory responsibilities over staff members.

This interpretation would help define the population of individuals from which written consents must be obtained (as required by Part VIII of Form 1). For example, this would clarify that firms are not required to obtain consents from retired partners that are receiving annual cash retirement payments from an unfunded retirement plan, the amount of which is based on current firm profits. This clarification would also narrow the population of associated persons on which applicants must provide information in Part V of Form 1 (criminal, governmental, civil and administrative actions).

We also suggest that the definition be clarified to mean that "associated person" is intended to mean only natural persons. In connection with the "independent contractor" category, we understand that the staff of the PCAOB has indicated informally that the "person associated" means an individual that is engaged directly by the applicant in that capacity and would not include individuals or partners or staff of independent contractors hired by the applicant. We also understand that the staff of the PCAOB has indicated informally that in the situation where a U.S. firm requests an associated non-U.S. firm to perform audit services on an SEC issuer, the individual staff assigned to the engagement by the non-U.S. firm would not be considered to be an "associated person" under the definition.

We believe that Congress intended the requirements related to "associated persons" in the Act to require public accounting firms to provide disclosures about, and take responsibility for the actions of, their owners and employees. Therefore, we believe the above clarifications would be consistent with the overall purpose of the Act. The meaning of "associated person" should include only those persons whose relationship with the applicant

is that they play a significant role in the conduct of audits, receive profits or compensation from the firm's audits, or have the authority to act on the behalf of the firm.

PCAOB Form Requirements Exceed Statutory Authority

PCAOB Rule 2101 requires an applicant to complete and file Form 1. Part V, Item 5.1(a) of Form 1 requires the applicant to indicate whether or not the applicant or any associated person of the applicant is a defendant or respondent in "any pending criminal proceeding, or was a defendant in any such proceeding in which a judgment was rendered against the applicant or such person, whether by plea or after trial, during the previous five years." The Section-by-Section Analysis included in Appendix 3 of the proposed rules does not limit in any fashion the nature of the criminal proceedings that must be listed. The PCAOB has indicted to us that applicants must list *all* proceedings of *any* nature whatsoever. As a result, registrants and their associated persons will need to analyze the laws in each state or jurisdiction to determine which offenses would be considered "criminal" proceedings. This could result in the reporting of minor offenses such as traffic violations and other offenses, however unrelated to public accounting. This is unwarranted and unsupported by the law, and inconsistent with parallel requirements imposed by rules approved by the Commission.

The Sarbanes-Oxley Act of 2002 requires any public accounting firm seeking registration with the PCAOB to submit certain information about itself and its associated persons. Section 102 of the Act sets forth the information that Congress deemed necessary for such registration, in light of the objectives of the Act. Subparagraph (b)(F) of Section 102 provides that a registrant submit "information relating to criminal, civil, or administrative actions or disciplinary proceedings pending against the firm or any associated person of the firm *in connection with any audit report*." An "audit report" is defined in Section 2 to mean a document or other record prepared for "purposes of compliance by an issuer with the requirements of the securities laws." The term "issuer" has the meaning established under the securities laws, an entity that has registered its securities with the Commission or files periodic reports with it.

The clear intent of the Act is to require disclosure of past criminal, civil or disciplinary actions that involve an audit report for a public or reporting company. Nothing in the Act reflects an intention to require more. Information regarding an offense touching on an audit report is, of course, pertinent to the registration process because it bears directly on the accountant's professional background and fitness to practice public accounting. The Act does not, however, authorize the PCAOB to invade every aspect of an individual's history and violate their privacy in a manner that does not advance the purposes of the Act.

The Act's requirements in this area parallel disclosure required in the brokerage industry. For example, under NASD Rule 3070, each member firm is required to report whenever its associated members are indicted or convicted of a felony, or any misdemeanor that involves the purchase or sale of securities or other offense that directly implicates the individual's honesty, such as taking a false oath or perjury. The purpose of this rule is plainly to address the kind of offenses that have a direct bearing on an individual's fitness to work in the securities industry. The NASD rule is consistent with the Federal Rules of Evidence, which permits impeachment of a witness with evidence of a criminal misdemeanor conviction only if it involved dishonesty or false statement. *See* FRE 609

The Commission's rules governing the disclosure of the backgrounds of public company officers and directors are also confined to matters that pertain to an evaluation of the individual's ability or integrity, and therefore exclude traffic violations and other minor offenses. *See* Regulation S-K, Item 401(f) The PCAOB expressly accepted the parallel between its rules and Regulation S-K by citing that regulation in adopting a five- year time period for disclosure. *See* PCAOB's Section-by-Section Analysis at footnote 34.

The PCAOB's rule exceeds its statutory authority, is inconsistent with the Commission's actions in other similar contexts, and imposes an unreasonable burden on registrants. A broad requirement to disclose any "criminal proceeding" may require a state-by-state evaluation of what constitutes a "crime." Some states may consider certain traffic offenses crimes, as well as domestic disputes. In Illinois, for example, state criminal jurisdiction extends broadly to any "offense," a term that is defined to include "conduct for which a ... fine is provided by any law of this State." 730 Illinois Code, Section 5-1-15. Further, accounting firms hire recent college graduates in their early 20's. Since the rule looks back five years, a registrant may have to determine whether certain juvenile offenses are considered "crimes." None of this serves the public interest or that of the PCAOB. While Grant Thornton prides itself on the integrity and accomplishments of its personnel and does not contend here that relevant information should not be provided, the proposed registration rules go too far and seem designed to embarrass more than inform. Grant Thornton believes that the Commission should approve the PCAOB's rule only with the qualification that it confine disclosure to the arena identified by the Act - the preparation of audit reports, and, at most, offenses that bear directly on honesty such as convictions for perjury or fraud.

We thank you for the opportunity to comment and would be pleased to discuss any of our comments with the Commission or its staff. Please direct your questions to Karin French, Partner in Charge of SEC Regulations, at (703) 847-7533.

Very truly yours,

/s/Grant Thornton LLP

Attachment A

The following represents the response previously provided by GTI to the PCAOB on the proposed PCAOB Release No. 2003-001, *Proposed Registration System for Public Accounting Firms*.

Public Company Accounting Oversight Board
1666 K Street NW
9th Floor
Washington
DC 20006
(Being sent as an email attachment)

31 March 2003

Dear Sirs

PCAOB proposal regarding auditor registration system

We welcome the opportunity to comment on the Board's proposals for registration. Our response is made on behalf of Grant Thornton International. We set out below our general comments on the proposals, followed by answers to the specific questions posed by the Board.

General comments

Grant Thornton shares the primary concern of the Board, namely to restore public confidence in the major capital markets and in financial reporting by public companies, particularly in the United States which represents such a large proportion of the World's capital markets.

While we understand the urgent timetable that was set for the Board by the legislators, we believe strongly that a more measured approach should be taken in relation to accounting firms outside the United States ("foreign public accounting firms"). We believe that through a process of cooperation with foreign regulators, many of whom have already taken steps to tighten their own requirements in the wake of recent corporate collapses, the Board could achieve a broader and more dependable level of comfort about standards of auditing in connection with US public entities.

An initial approach might be for the Board to liase with a small group of regulators (say those from the G7 countries). Such an approach would assist the staff of the Board to consider the regulatory systems that operate in each of the major territories. For this purpose, we suggest that the regulators in each identified territory be asked to submit to the Board relevant information, which benchmarks their local standards against the Rules of the Board. We believe that regulators would be prepared to cooperate with the Board in this way.

The Board's proposals for registration and regulation of auditors have significant repercussions for auditors outside the United States, including the following:

- We believe that certain aspects of registration with the Board regarding members of the staff of a foreign public accounting firm would breach the Data Protection Directive of the European Union.

- We believe that it may be unlawful to provide access to working papers to a non-local regulator in certain jurisdictions.

- We also believe that it may not be lawful to seek to compel audit staff in all jurisdictions to appear before a non-local disciplinary or investigative hearing.

- We do not have a decision as yet from insurance brokers as to whether they would allow us in all jurisdictions to register in a public forum full details of complaints and legal actions. If an accounting firm is unable to secure their agreement then it would make it impossible for many or all members of an international organisation outside the US to register with the Board.

Grant Thornton has no plans to withdraw from audits that will be regulated by the Board; however, there is a clear and active risk that the approach being considered will lead smaller audit firms to conclude that the risks and burdens are too high and many firms will decide to withdraw from such audits, thereby reducing choice and resulting in an even greater concentration of these audits, especially with the Big 4 firms. We believe that this outcome would not be in the wider interests of the market for audit services in the US or overseas.

A number of important questions arise about the scope and impact of the proposed registration system, in particular in relation to foreign public accounting firms that do not themselves prepare or furnish audit reports on any US issuers but that play a role in the audit of groups on which another firm (possibly the US member of their international network) issues audit reports. If the Board determines that it is not able (or prepared) to apply different registration arrangements (e.g. an exemption from, or extension to, registration) to foreign public accounting firms in general, we recommend strongly that it

should do so in relation to foreign public accounting firms that play a " substantial role" in the audit of an issuer but do not issue audit reports on issuers for the following reasons:

a. It is not clear how firms that do not play a "substantial role" in the audit of any issuer by reference to the 20% test are to determine whether, nonetheless, they must register by reference to the first part of the definition in Rule 1001(n). As currently drafted, the Rule would appear to require subsidiary auditors to contact the issuer's auditor in each case to obtain *the other firm's view* of the significance of their involvement; only once a firm had received a reply from the issuer's auditor in respect of every subsidiary audit would it know whether it had to register (and for which clients information would have to be provided in the registration). As a result, the ability of some foreign public accounting firms to register within the 180 day period will depend directly on whether other firms are willing and able to respond on a timely basis. Because we would expect many foreign public accounting firms to be in this position, this factor could pose a threat to such firms' ability to meet the registration deadline.

b. Certain of the information that is required to support a valid registration with the Board will take time to collate. In the case of information about an issuer where a firm played (or expects to play) a substantial role, that firm may have no contact with (nor detailed knowledge about) the issuer and its audit report; as a result, the foreign public accounting firm will need to obtain this information from the audit firm responsible for the audit of the issuer. Ad hoc requests of this sort are likely to be unwelcome at a time when auditors of issuers are preparing their own registration applications. By contrast, the auditors of issuers will already have information available about the firms that play a substantial role in those audits and we therefore recommend that this information would be more appropriately gathered through the PCAOB Form 1 (Application for Registration as a Public Accounting Firm) of the auditors of issuers.

c. Finally, registration requires explicit consent to be given of the powers and jurisdiction of the Board. Until it is clear how the Board will exercise its supervisory and disciplinary powers under the Sarbanes-Oxley Act, foreign public accounting firms will be required to register "blind". There are legal issues surrounding the Board's access to audit files of foreign public accounting firms that go to the root of the Board's supervision powers; we believe that the Board's objectives would be more appropriately achieved through recognition of, and cooperation with, local regulators.

RESPONSES to the Board's questions

1. Is it feasible for foreign public accounting firms to register within 180 days of the date of the Commission's determination that the Board is capable of operating? Should foreign public accounting firms be afforded some longer period (e.g. an additional 90 days) within which to register?

In those jurisdictions where it would be illegal for any firm to grant the PCAOB access to its audit files, it is unclear how foreign public accounting firms could agree (as part of the registration application) to consent to cooperate with the Board. Unless firms in those jurisdictions will be permitted to qualify their consent or to issue an incomplete Form 1, time will need to be allowed for the legal obstacles to be removed before those firms can be required to register.

Item 7.2 of Form 1 requires foreign public accounting firms to provide certain information about "accountants ... who participate in or contribute to the preparation of audit reports [of issuers]". It is not clear to us whether this is intended to include those who "participate in or

contribute to" the audit reports on accounts of "significant" subsidiaries of an issuer (which reports in turn provide support for the audit opinion on the accounts of the issuer). We would request the PCAOB to provide clarification on this point because the answer could have a significant effect on the volume of information that foreign public accounting firms will have to gather and provide with their registration filing.

In any event, we recommend strongly that the Board should concentrate its attention on the registration of firms that are auditors of a significant number of issuers and to grant an extension (say 12 months) for foreign public accounting firms that audit, say, less than 10 issuers and (of say 24 months) for foreign public accounting firms that play a " substantial role" in the audit of an issuer but do not issue audit reports on issuers. The latter would allow time for firms that neither audit issuers nor subsidiaries of issuers that exceed 20% of the group to determine whether they need to register (see general comments above and our answer to question 5 below).

Further, even if the foreign public accounting firms were able legally to provide all of the requested information, we are concerned about the timing of the registration process. Given that the Board does not anticipate being ready to accept registration applications until late June or early July 2003, we are concerned about the ability of both foreign and domestic firms to complete the registration process by October 26, 2003. We believe that Section 102 of the Sarbanes-Oxley Act of 2002 intended to allow public accounting firms the full 180 days to complete the registration process. If firms are unable to file their registration applications until late June or early July, then firms will in effect have less than 120 days to register with the Board. The proposed Rule requires the Board to approve or disapprove a completed application for registration, or request additional information from a prospective registrant within 45 days after the date of receipt of the application. In those cases in which the Board requests additional information, a new 45-day review period will begin when the requested information is received from the prospective registrant. Since this will be the first time through the process for both the Board and the public accounting firms, requests for additional information from prospective registrants may be common, thus further tightening the time period available to firms to complete the registration process.

We therefore respectfully request that the Board:

- defers the registration deadline for certain foreign public accounting firms, as noted in the above paragraph, and

- adopts a process whereby all domestic and other foreign firms may request an extension of the October 26, 2003 completion deadline for a reasonable period of time to allow all firms the full 180 days to complete their registration with the Board.

2. Are there any portions of Form 1 that are inapplicable, or that should be modified, in the case of non-US applicants?

As noted in our general comments, we recommend that information required to be provided under Item 2.4 should instead be added to the information to be provided by auditors of issuers under Items 2.1, 2.2 and 2.3, together with information about the identity of the subsidiary auditor(s).

As noted in our response to the previous question, certain requirements of Form 1 conflict with laws in some non-US jurisdictions. The Board will need to give urgent consideration to whether it should accept and process registration applications that are "incomplete" in areas where such conflicts have been identified to the Board by non-US regulators.

A significant proportion of Form 1 will not apply to firms that do not perform any audits of issuers. We therefore recommend that the website for submission of registration applications should offer a simplified approach to registration by those firms that identify themselves at the outset as falling within this category.

3. In addition to the information required by Form 1, is there any additional information that should be sought from non-US applicants?

In order that the Board may take account of regulation and monitoring in an overseas jurisdiction, Part I of Form 1 should call for clear identification of a firm's regulatory body (which may not be clearly evident from the information required by Item 1.7). The overseas regulatory bodies themselves should provide details of their regulatory and disciplinary arrangements so that individual foreign public accounting firms do not have to prepare and provide written summaries of this information.

4. Do any of the Board's registration requirements conflict with the law of any jurisdiction in which foreign public accounting firms that will be required to register are located?

We have not had time to consider the interaction of the registration requirements with the legal rights of individuals in all jurisdictions. However, we believe that certain aspects of the registration of information about members of staff with the Board would breach the Data Protection Directive of the European Union. Also, as a general principle individuals would need to give express consent to the disclosure of certain information about them (such as history relating to breaches of criminal or civil law). Where there is information that is required to be disclosed under Item 5.5 and the relevant individuals are no longer associated with the registering firm, they would have no incentive to consent so the firm could find itself prevented from filing a complete Form 1.

In view of the significance of the legal obstacles that we believe will face many foreign public accounting firms, we suggest that the PCAOB should liaise with the European Commission and equivalent bodies in other parts of the world to clarify the legal position before requiring foreign public accounting firms to register (either at all or with this information).

5. In the case of non-US firms that are required to register because they play a substantial role in the preparation and furnishing of an audit report on a US issuer, is the Board's definition of "substantial role" appropriate?

Rule 1001(n) defines the phrase "play a substantial role" to mean:

- to perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report with respect to any issuer, **or**

- to perform audit procedures with respect to a subsidiary or component of any issuer the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer.

Although auditors of subsidiaries may be aware of the relative sizes of their clients and the corresponding consolidated entities, this will often not be the case. Also, the first element of the test can only be applied by the auditor of the issuer.

As a result, a firm that does not audit issuers cannot determine whether it needs to register and, if so, what information is required by Item 2.4 of Form 1 without full cooperation from the primary auditors of the related issuers. Given that in the coming months those firms will

no doubt be concentrating on their own registrations, there is a high risk that auditors of subsidiaries will not be in a position to register by the 180 day deadline due to a lack of information.

6. Should the requirements to register be different for foreign public accounting firms that are "associated entities" (as defined in the Board's rules) of US registered public accounting firms than for foreign firms that are not associated with US registered firms?

We suggest that the information required to support the registration of a foreign public accounting firm should take account of:

- the registered status of the US member of the international network of which the firm is a member, and
- the requirements that already need to be met in order for firms to be members of the network.

For this purpose, US firms that are members of such networks could be required to file details of the quality control and other standards to which all network members are required to adhere. Foreign public accounting firms would then merely need to indicate in their registration the international network with which they are associated.

Overseas firms that are not associated with a US registered firm are likely to be viewed by the Board as having a high risk of non-compliance, so will probably justify a different, targeted approach.

7. Should registered foreign public accounting firms be subject to Board inspection? Could the Board, in some cases, rely on home-country regulation in lieu of inspection of foreign public accounting firms? If so, under what circumstances could this occur?

We believe that foreign public accounting firms should continue to be monitored and regulated by their local regulators. This would provide a more continuous basis for comfort by the Board than remote monitoring from the US with occasional monitoring visits. Such an approach would also recognize the national sovereignty of countries outside the US and the steps that they have taken in response to corporate failures, both recently and in the past.

The Board should reserve the exercise of its desired powers of inspection to the more serious cases of suspected break downs of standards where there is a public interest or where the Board is not satisfied with the efficacy of overseas local monitoring arrangements.

8. Aside from Board inspection, are there other requirements of the Act from which foreign public accounting firms should be exempted? If so, under what circumstances?

The requirements of the Act for the filing of annual reports and periodic updates of registration information have yet to be turned into rules and forms. We would ask the Board to be mindful of the possibility that arrangements within foreign public accounting firms for gathering information about clients, fees, staff and 'actions in relation to audits' may differ from (or be less sophisticated than) arrangements that would be expected to be present in US accounting firms. This should be reflected in the regularity of, and timescale for, filing updates and reports.

9. Are there requirements different from those the Act imposes on all registered public accounting firms that the Board should apply to foreign public accounting firms?

See earlier responses.

10. Should the Board's oversight of foreign registered public accounting firms that are "associated entities" (as defined in the Board's rules) of US registered public accounting firms be different than its oversight of foreign public accounting firms that are not associated entities of US registered firms? Should the US registered firm have any responsibility for the foreign registered firm's compliance with the Board's rules and standards?

We would be in favour of recognition by the Board of the value of international networks in terms of the common standards and strong self-regulation of audit quality standards that already operate within many international networks, particularly the members of the Forum of Firms.

Where the US member of a network is responsible for the audit of an issuer and other network members audit significant subsidiaries, it would be logical for either the US firm or the international organisation to have oversight responsibility for compliance by member firms with the Board's Rules; however, primary responsibility for compliance would need to remain with the individual member firms.

Concluding remarks

The Board has been given a difficult task to achieve within a short timescale. We hope that the Board will recognise the unique difficulties of compliance by non-US firms. Accordingly, we believe that one of the Board's first priorities should be to ensure that the registration/oversight system is appropriate in the US, where by a substantial margin the largest risks to US investors lie. Only once the Board is satisfied that the system is appropriate in the US and that compliance difficulties by non-US firms can be overcome should the Board then turn its attention to foreign public accounting firms, whose influence on reporting by US issuers is far less significant.

We should be happy to discuss any of our comments with a member of the Board's staff; for this purpose, initial contact should be made with Barry Barber at 732 516 5550 or barry.barber@gt.com.

Yours faithfully

David McDonnell
Chief Executive Worldwide
Grant Thornton International