March 30, 2006

The Advisory Committee on Smaller Public Companies of the
Securities and Exchange Commission

Re: File No. 265-23

Gentlemen:

Offered herewith are my comments for your consideration regarding the proposed new rules on recommendations for changes to the securities regulation system, applying various provisions of the Sarbanes-Oxley Act of 2002 and other matters pertaining to smaller issuers.

The subject of these comments is the partner rotation rules affecting smaller CPA firms.

The current provisions of the Act require partner rotation when a firm has five or more public company clients. Further, clarification of the definition has revealed that the partner rotated off the engagement is to have no audit participation whatsoever in the engagement after rotation takes place except that the partner can function as the tax partner on the engagement. In addition, it is apparently allowable for the exiting partner to be "consulted" by the new partner and audit team at their discretion.

These rules are understandable in theory as they apply to larger firms to provide a "fresh look" by a new decision maker partner to enhance independence.

However, the practicable application to smaller firms is quite different and burdensome and downright detrimental to the functioning of the CPA firms and continuity for the registrants. The forced partner rotation at such a small number threshold (5) without any meaningful allowance for continuity concerns is an undue hardship on both the firms and the clients.

The rotation (without clarification available) forces the firm in some cases to seek mergers with other firms or to exit the business they are in (service to smaller public companies). Mergers are not made in heaven and are fraught with economic, staff, cultural, insurance and client relationship problems. The availability of malpractice insurance for firms serving public companies is not that good and can be complicated by mergers and related concerns for liability issues. Clients (or firms) are forced to bear the burden of start up time for the new partner (and staff in some cases) to relearn the nuances of the client and the myriad of accounting rules pertaining to that client without the practical benefit of the rotated partner's "real" involvement.

The accounting and management expertise necessary to properly serve public companies is quite extensive and obviously changing at an ever increasing pace. If a small firm has five public clients, the fees for those clients might be sufficient to support one partner but probably not two. Thus, at that size requirement for rotation, it forces the firm to bear the burden of the specialty training for a second partner without a corresponding return in terms of fees thus causing a loss of income of substantial proportions to the smaller firm. In addition, if the exiting partner is then forced to not have any meaningful work on the client, that partner must then seek other work from within the firm that may not match their expertise obtained in working on the public company clients. Or, they must chose to merge with another firm that already has that expertise and then a resulting fee arrangement sharing that would normally result in a reduced economic return to the original partner.

The clients on the other had must endure the burden of explaining their systems and company to a new person or group of persons since the new partner may not be working with the same staff group. That causes inefficiency and costs either the firm or client.

There is not a lot of guidance on this subject and contacts with the SEC have resulted in speculative suggestions.

I would like the committee to consider the rules as they currently stand to propose either:

1. An expansion of the number of public company clients to ten from the current five before requiring rotation.
2. And/or allowing for active consultation or concurrent partner review by the exiting partner and other permissible activity by the exiting partner to allow for transition and continuity.
3. Change the independence rules so that the exiting partner may provide other services to the public company client that otherwise would be prohibited by the current independence rules, such as consulting, FAS 109, FAS 133, EITF 00-19 and FAS 123R services.

To date, I have not seen or heard any discussion of this particular aspect of the Act and respectfully request that it be given some consideration in these deliberations.

Very truly yours,

Walter Copeland
Partner
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