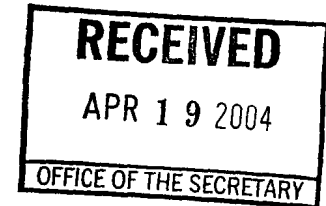


# RAYMOND JAMES®



April 13, 2004

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Jonathan G. Katz, Secretary  
Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, DC 20549-0609

Re: PCAOB-2004-03

Dear Mr. Katz:

Raymond James Financial, Inc. (Raymond James) appreciates the opportunity to comment on the proposed audit approach to implement Section 404(b) of the Sarbanes Oxley Act of 2002 (SOXA). Raymond James is a Florida-based holding company whose subsidiaries are engaged in the financial services business throughout the United States, in Europe and Latin America.

Raymond James fully supports the development of sound accounting principles and other measures that will strengthen audit effectiveness and thereby promote corporate integrity and public trust in the soundness of the financial markets. However, we believe that the proposed audit standard, which would require a complete audit of internal controls of every public company every year, goes well beyond the intent of Congress in adopting SOXA, would impose excessive costs on American business, and would have a substantial inimical effect on capital formation in the United States. For all these reasons, we urge the Commission to require the PCAOB to reconsider this proposal and adopt an audit standard that is more consistent with the intent of Congress as expressed in SOXA.

1. Congress did not intend to mandate an annual comprehensive audit of internal controls by outside auditors.

In Section 404 of SOXA, Congress adopted a provision that clearly stated the actions it thought necessary to improve the quality of internal

controls at public companies. Section 404(a) requires the S.E.C. to mandate an internal control report from the management of every reporting company, containing an assessment "of the effectiveness of the internal control structure and procedures of the issuer for financial reporting."

Supplementing that requirement, Section 404(b) requires that the outside auditor for each reporting company

"shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this subsection shall be made in accordance with standards for attestation engagements issued or adopted by the Board. Any such attestation shall not be the subject of a separate engagement."

The language used by Congress in Section 404(b) is clear, and uses terminology that has been a part of the audit literature since 1986: see Auditing Standards Board, Statement on Standards for Attest Engagements (1986). When Congress mandated that the outside auditors issue an "attest report" on management's report on internal controls, it was fully cognizant that professional standards already existed with respect to how such an engagement was to be performed: see, Auditing Standards Board, Statement on Standards for Attestation Engagements No. 10 (effective June 10, 2001). For that reason, in Section 404(b) Congress gave the PCAOB authority to revise or alter those attest standards - - but in no way indicated any attention to create an entirely new audit engagement.

Yet, that is precisely what the PCAOB has proposed in its proposed standard. It has completely abandoned the notion of an "attest report" and simply substituted, on its own volition, a proposal to require auditors to conduct a comprehensive audit of internal controls to be integrated with the audit of the financial statements.

There is nothing in the statute which mandates such a dramatic expansion of the scope of the auditors' involvement in internal controls. Indeed, it seems clear that Congress intended to foreclose such an expansion of audit activity by using the precise language that it did: as noted, the term "attest report" has a long standing history in the audit literature.

In the final sentence of Section 404(b) of SOXA, the Congress provided:

"Any such attestation shall not be the subject of a separate engagement".

The Committee report with respect to this provision suggests that it was meant to prevent auditors from using Section 404(b) as a basis for a new engagement requiring payment of an additional fee. See Report of the Senate Committee on Banking, Housing and Urban Affairs on S.2673 (July 3, 2002) p. 31. Ironically, the Board relies on this very sentence to justify its proposed creation of such an engagement.

The Board, therefore, has not only gone beyond anything contemplated by Congress - - it has likely specifically contravened the intent of Congress in passing Section 404(b) of SOXA.

2. The requirement for an annual audit of internal controls will substantially increase audit costs to American businesses.

According to a report issued by Institutional Shareholder Services, audit fees during 2002 increased an average of 27% at the companies comprising the Standard and Poors' 500 Index: from \$2.7 million to \$4.2 million. The comprehensive audit mandated by the PCAOB will likely increase these costs by an additional amount, perhaps as much as 50%.

In our own case, informal conversations with our outside auditors as we began preparations to comply with the requirements of Section 404 of SOXA indicated that we could anticipate the costs for the "attest" report to add anywhere from 20% - 30% to our audit fees. The expansion of that engagement to a comprehensive audit will likely significantly increase that cost. Furthermore, it is likely that the costs that will be incurred by our internal staff will equal or exceed the payment to our outside auditors.

Additional audit cost is not a "free good". It adversely impacts the profitability - - and therefore the competitiveness - - of American companies, and can adversely affect the functioning of our business system at a time when American business is already under significant pressure.

The significant additional cost of such an engagement will have a direct impact on the willingness and ability of companies to seek funding through the U.S. public capital markets. Ultimately, every additional cost imposed on companies that seek to participate in the public capital markets results in an inhibition on capital formation with a corresponding adverse impact on the competitiveness and efficiency of American business.

Moreover, the PCAOB, as regulator of the accounting profession, is charged with an understanding of the non-competitive nature of the audit profession in the United States with respect to reporting companies. Today, well over 90% of reporting companies are audited by just four accounting firms. These firms occupy an oligopoly position with respect to their ability to set costs, having no fear of competitors. As a result, there is no likelihood that competitive pressures will reduce the costs mandated by this new and unwarranted requirement; in fact, the SOXA statute has completely eliminated whatever slight competitive leverage there may be in the marketplace - - since it requires each reporting company to use only its own auditor to perform this engagement.

The Commission should therefore be mindful that when it approves a new comprehensive audit requirement of this kind, it is in fact delivering an economic windfall to four auditing firms, at a cost to be borne by the entire American business community.

3. If the Commission is persuaded that a comprehensive audit of internal controls is required, it should not require such a report on an annual basis.

If the Commission, after evaluating the comments and concerns of American businesses, concludes that there is value in a comprehensive audit of internal controls, there is nothing in SOXA 404(b) that requires the Board to mandate this as an annual process. The Board could remain fully consistent with the requirements of the statute if it were to provide for an annual "attest" report as specifically called for by the statute, but require a periodic comprehensive audit of internal controls by the outside auditors - - whether once every three years, once every five years, or some other periodic term. Such a procedure would have the advantage of limiting the cost to America's businesses, while at the same time providing a baseline from which the auditors could draw useful information in connection with their annual "attest" report.

We believe that the issue under consideration by the Commission is of the greatest significance to the American business community. We urge the Commission to give it the attention that is required by the enormity of the proposal, and to approach the issue in a way that gives effect to the intent of Congress.

Respectfully submitted,



Barry S. Augenbraun  
Senior Vice President and  
Corporate Secretary

cc. Honorable William H. Donaldson, Chairman  
Securities and Exchange Commission

Honorable Cynthia A. Glassman  
Honorable Harvey J. Goldchmid  
Honorable Paul S. Atkins  
Honorable Roel C. Campos

Joshua B. Bolten, Director  
Office of Management and Budget  
725 17<sup>th</sup> Street NW  
Washington, DC 20503