

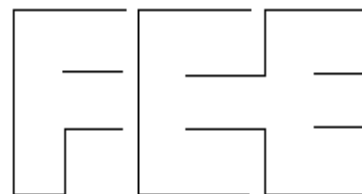
Date
4 December 2003

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Office of the Secretary
Public Company Accounting Oversight Board (PCAOB)
1666 K Street, NW
USA - Washington D.C. 20006-2803



Dear Sirs,

Re: PCAOB Rulemaking Docket Matter No. 010 – “Proposed Auditing Standard – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board”

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased, as the representative organisation of the European accountancy profession, to comment on the exposure draft released by the PCAOB on 12 November 2003 on “Proposed Auditing Standard – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board” (referred to as “the proposed standard”).

We are commenting on the use of certain terms in the PCAOB standards as stated in the statement of authority included in the proposed standard. We are not commenting on the references in auditors' reports to the standards of the PCAOB.

Because of the importance of the issues raised by the proposed standard we are sending a copy of our response to the International Auditing and Assurance Standards Board (IAASB) and the European Commission.

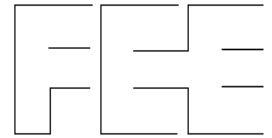
We are delighted that both the PCAOB and the IAASB are working hard towards achieving clarity in terms and definitions used in their standard setting. In the light of the considerations below, we believe that the PCAOB's rulemaking on this subject would be greatly enhanced by coordinating its efforts with the IAASB. The projects currently undertaken by both standard setters should be finalised within a similar timeframe. In particular, we note that a 90 day consultation period would be expected under the IAASB's normal due process in respect of any exposure draft issued following the IAASB meeting later this month.

Worldwide repercussions of proposed standard

The statement of authority in the proposed standard will have a very wide impact not only on US-based auditors, but also on auditors throughout the world serving:

- (1) SEC foreign registrant companies who choose to be listed in the US; and
- (2) the relevant subsidiaries of US domestic SEC registrants which fall under the same requirements as the US domestic portion of the entity.

We request the PCAOB to give due consideration to the impact its proposal will have on the IAASB's global auditing standards. In particular, we strongly encourage the PCAOB to consider how the proposed standard fits in with International Standards on Auditing (ISAs). There are inconsistencies with definitions contained in current ISAs and it is also our understanding that the IAASB is currently considering wording issues crucial to the development of future standards. New definitions to be



applied in future ISAs should be carefully taken into account and integrated in the proposed standard of the PCAOB.

Problems with definitions

The use or definition of certain terms in PCAOB standards should be in line with the ISAs which will be adopted by firms in the European Union in 2005. Inconsistencies will have considerable practical consequences for the adoption of global standards, not least for the translation of English language standards into multiple European languages.

A proposed exposure draft of a proposed IAASB Policy Statement in respect of "Authority of, and Conventions Used in, International Standards and Practice Statements Issued by the IAASB" is included in the agenda of the IAASB board meeting to be held on 8 to 12 December 2003. It includes the terminology used to describe professional requirements.

The definition of "should" indicates under the proposals of both the PCAOB and the IAASB, requirements or obligations that are presumptively mandatory. However the more detailed interpretation of the definitions is substantially different. The proposed IAASB definition states that if a standard provides "... that an action or procedure is one that the professional accountant "should consider," the consideration of the action or procedures is presumptively mandatory, while the action or procedure is not" thus allowing for the exercise of professional judgement in the context of a principle based framework.

The proposed PCAOB definition indicates that the "...auditor must comply with the requirements of this nature specified in the Board's standards unless the auditor can demonstrate, by verifiable objective and documented evidence, that alternative actions that he or she followed in the circumstances were sufficient to achieve the objectives of the standard and serve adequately to protect the interests of investors and further the preparation of informative, fair, and independent audit reports." This definition effectively makes "should" into an imperative and will foster a rules-based approach. The call for "verifiable objective and documented evidence" will discourage the use of professional judgement or the consideration of any alternative options.

FEE is firmly in favour of principle-based auditing standard setting which allows and encourages the auditor to use professional judgement. We believe that it also serves the public interest and would be in the long term interest of the PCAOB in discharging its responsibilities.

The PCAOB uses the words "may", "might" and "could" or other terms and phrases to describe actions and procedures that a professional accountant might consider performing in certain circumstances. Such actions and procedures, also called explanatory material, are characterized as a separate category of professional responsibility by the PCAOB. Under the IAASB proposal, such explanatory material only provides *guidance* or *explanatory material* on other possible procedures and actions. The professional accountant has a responsibility to read and consider such guidance, but there is no general obligation to carry out other procedures and actions that are specifically intended to act as guidance. We do not believe that the description proposed by the PCAOB is consistent with the nature and intended use of explanatory material, and may inadvertently result in confusion over the responsibilities of the professional accountant.

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If you have any further questions about our views on these matters, do not hesitate to contact us.

Yours sincerely,

David Devlin
President