

# NBC



LEWIS F. MALLORY, JR.  
CHAIRMAN OF THE BOARD  
AND CHIEF EXECUTIVE OFFICER

## CAPITAL CORPORATION

March 11, 2005

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N. W.  
Washington, D. C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 017: Proposed Ethics and Independence Rules  
Concerning Independence, Tax Services and Contingent Fees

The Members and Staff of the Public Company Accounting Oversight Board:

During a recent meeting with the management and Audit Committee of our Company, our independent auditors reviewed the above referenced proposed rules issued by the PCAOB. Based upon discussions with our auditors and upon our understanding of the proposed rules, we have the following comments about certain sections for your consideration:

### *Tax Services for Senior Officers*

The PCAOB's proposal indicates that the independent audit firm is prohibited from providing tax services for Company officers who are in a financial reporting oversight role. Our Company objects to the proposal because we do not agree that the performance of **routine** tax services for senior officers threatens the independence of the auditing firm. Our auditing firm has provided routine tax services for several senior officers of the Company for many years, and we have never encountered a situation or circumstance that would have had an effect on the independence of the auditor. In our opinion, the current rules, specifically those involving Audit Committee oversight, mitigate any concerns that may arise due to the audit firm providing routine tax services to senior officers. We would not object to the audit firm disclosing to the Audit Committee tax services provided to senior officers with financial reporting oversight.

***Audit Committee Pre-Approval of Certain Tax Services***

We support the involvement of the Audit Committee in the approval of services provided by the independent audit firm. Our Company has made a strong effort to have an active Audit Committee. However, we believe the proposed rule places such restrictions on the ability of the audit firm to provide tax services that the Company may be placed in a position of not complying with applicable tax laws and reporting requirements. The proposed rules do not allow flexibility on the part of the audit firm or the Company, if situations are encountered during the performance of the financial statement audit or the performance of tax services. The proposed rule seems to require detailed approvals of all tax services to be provided by the audit firm. In a business with complex tax issues as ours, flexibility is a must and the requirement to provide the Audit Committee with overly detailed information about each tax service, each tax return, or each tax reporting issue seems to be overly burdensome. Often circumstances may require a timely response or action and this rule appears to limit the Company's ability to do so.

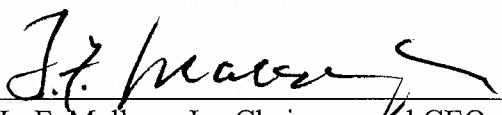
The rule also seems to indicate that a Company such as ours should employ a "tax director." We do not believe such a position for our Company would be a prudent decision, and we can not agree with this position on the part of the PCAOB. We believe that this section of the proposed rule is an example of the lack of consideration on the part of the PCAOB of the practicality of the requirement in a business situation such as ours.

In conclusion, we believe the PCAOB is placing such severe restrictions on or even elimination of the ability of the independent audit firm to provide tax services that the unintended consequences may be the exposure of the Company to tax reporting errors or even failure to accurately report taxable events. Further, elimination of the Auditors' knowledge of the Company and its activities through the performance of tax reporting services can result in harm to the Company and to its stockholders. We also believe that the financial statements audit is enhanced when the auditor has knowledge of financial transactions gained by providing tax services.

Our Company is committed to improving the audit quality and the quality of the financial reporting process and supports many of the actions taken by the PCAOB. However, we believe that the proposed rules contain provisions that do not contribute to this objective, in fact, they would likely be counterproductive. We appreciate the opportunity to comment on these proposals.

Sincerely,

NBC CAPITAL CORPORATION

By   
L. F. Mallory, Jr., Chairman and CEO