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

July 24, 2006

Rulemaking Docket Matter No. 019

Transmitted via electronic mail

Dear Mr. Secretary:

On behalf of KPMG LLP (U.S.) and the other member firms of KPMG International, we appreciate the opportunity to comment on the proposed rules of the Public Company Accounting Oversight Board (Board), *Periodic Reporting by Registered Public Accounting Firms,* (proposed Rules) issued May 23, 2006 pursuant to Section 107 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley).

The overarching objective of Sarbanes-Oxley is to further the public interest by improving financial reporting, governance, and audit quality. KPMG wholeheartedly supports the efforts of the Board in helping to achieve this objective. We commend the Board on its efforts and realize that requiring periodic reporting by registered public accounting firms (registered firms) is another step in fostering transparency and confidence in the public accounting profession.

As further explained in this letter, we support:

- A concept of requiring periodic public reporting and disclosure for registered firms; and

- The prompt, public disclosure on the Board's website of the non-confidential portions of the annual and special reports upon filing by a registered firm.

However, we believe the Board should reconsider:

- The mandatory required dates to provide the information for Forms 2 and 3, as contained within the proposed Rules. We recommend that the Board defer the implementation date for one year for registered firms' submission of the initial Form 2. We also believe the 14-day period is too short for reporting events

required by Form 3 and recommend that the Board significantly extend the required reporting period for such events.

- Disclosure requirements contained within the proposed Form 2 relating to (a) certain sanctioned individuals and (b) individuals with certain sanctioned firms. We recommend that the Board convene a meeting of interested parties to further reconsider these disclosure requirements.

- Proposed Rule 2207(e), which could overrule and disregard mandatory foreign law. The Board should have the power to obtain all protected information through home country regulators, but not to sanction registered firms that cannot comply with information requests because of applicable local law.

- The extent of reporting of certain revenue, personnel, litigation and business relationship data.

- The auditor's responsibility to report the withdrawal of its audit report or unauthorized use of its name on Form 3.

- Information required to be reported on Form 3 for the "catch-up" period.

To achieve better clarity and understanding of the proposed Rules, we request that the Board convene a roundtable of representatives of registered firms and other regulators, e.g., the SEC and state boards of accountancies, to hold a thorough discussion regarding the impact and potential unintended consequences that may occur with implementation of certain of the proposed Rules.

The principal observations set forth in this letter reflect the assessment by KPMG LLP (the United States (US) member firm of KPMG International) and other registered member firms of KPMG International (collectively, KPMG) of the proposed Rules' potential effect on US and non-US registered firms. Many of the registered KPMG member firms outside the US have a direct interest in the proposed Rules because of the number of issuers and affiliates of issuers domiciled outside the US that they audit. Adoption in final form of the provisions in the proposed Rules without consideration of the matters discussed in this letter, may in our view, result in significant cost and other inefficiencies, conflict with local laws in others countries and cause potential delays in a non-US registered firm's ability to comply with the final rules.

We also believe that for non-US registered firms, many of the reporting requirements incorporated into the proposed Forms 2 and 3 should be subject to the Home Country Principle (HCP), a concept that KPMG believes should be

supported by a global protocol on baseline and annualized information to be supplied by a registered firm. A key underpinning to the HCP is that the Board should rely on reporting information supplied to the home country regulator, which would be based on international protocols agreed to by local country regulators and the Board, and, as such, enabling information to be shared between auditor oversight bodies. This approach would be consistent with the Board's rules 4011 and 4012, which were adopted for inspection purposes and would avoid the significant costs of duplicate reporting and complexities of complying with different audit regulators' varying requirements and timeframes, and would also avoid any existing legal conflicts.

For more discussion on these issues, we request that the Board convene a roundtable of representatives from non-US registered firms and oversight bodies and others with a direct interest, e.g., the European Commission.

We include in the Attachment our specific comments on the proposed Rules, including suggestions that we believe will improve the overall quality and effectiveness of the final rules in a cost-effective manner, consistent with the objectives of Sarbanes-Oxley.

We would be pleased to clarify or answer any questions about our comments. Please call or write Mike Plansky, 212-872-4458 or mplansky@kpmg.com.

Very truly yours,

KPMG

cc:
Mark W. Olson, Chairman, Public Company Accounting Oversight Board
Kayla J. Gillan, Member, Public Company Accounting Oversight Board
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Charles D. Niemeier, Member, Public Company Accounting Oversight Board
Christopher Cox, Chairman, Securities and Exchange Commission

KPMG

ATTACHMENT

A. Annual and Periodic Reporting on Proposed Forms 2 and 3

Required Information and Timing

The proposing release describes the proposed Form 2 as requiring registered firms to provide information to the Board in three broad categories as follows:

- Whether the registered firm issued audit reports for issuers or played a substantial role in any audits of issuers;
- Revenues derived from, personnel who provided audit services as part of, and external sources used in the audits of issuers; and
- Disclosure of certain relationships entered into during the reporting period, including acquisitions.

Furthermore, the proposed Form 2 mandates that the registered firm affirm its consent to cooperate with the Board and enforce cooperation by the registered firm with respect to its associated persons. Finally, the proposed Form 2 mandates a single reporting period for all registered firms.

The proposed Rules would require a registered firm to file a special report on Form 3 no more than 14 days after certain reportable events occur. The proposed Rules also include a corresponding "catch-up" provision in which a registered firm is required to file a Form 3 for all reportable events that have occurred since the data cut-off used by the registered firm in its initial registration application with the Board.

The proposing release describes the Board's reasoning for requesting the potentially significant amount of information required by both proposed Forms 2 and 3. In our opinion, it is not clear that there has been adequate consideration of the cost/benefit implications of requiring registered firms to accumulate and report all of the requested information and we are uncertain as to how some of the information requested by the Board will be useful to it in fulfilling its mandate to improve audit quality. While we acknowledge and respect the Board's authority to require registered firms to submit such information, we request that the Board first look to data that are publicly available before requiring registered firms to accumulate and report duplicative information, which may not be cost efficient for registered firms.

Effective Dates of the Annual Reporting Forms

The proposed Rules contain effective dates, with which it will be extremely difficult for registered firms to comply. As described in the proposing release, the proposed Rules would be effective 21 days after approval by the Securities and Exchange Commission (SEC), which might not occur until early 2007. As such, the registered firm's initial Form 2 report on the annual period ending March 31, 2007, would be due to the Board by

June 30, 2007 and its initial Form 3 report would be due within 14 days of the effective date of the proposed Rules.

The due dates, as currently proposed, could cause registered firms to undertake extensive and costly modifications to their financial reporting and other information systems in order to accumulate the data required to be submitted to the Board in conjunction with the filing of the required forms. Certain of these modifications might require a registered firm to revise its processes in mid-year for reporting functions relating to recasting revenues and other data and could result in multiple or overlapping periods to meet the proposed Form 2 requirements. Specifically, the proposed Rules will require registered firms to record and classify, on a total firm basis, their fees to issuers in a manner that was not previously required by regulation. Existing industry practice has been for registered firms to accumulate fee information, on an individual issuer basis, to assist the issuer in complying with its obligations pursuant to the SEC's proxy disclosure rules with respect to fees paid to its auditor. Thus, the proposed Rules may also require the registered firm to incur significant costs to revise existing information systems or build new systems to capture the data required by the proposed Rules. Furthermore, with respect to the initial Form 3 report "catch-up" period, it would require registered firms to accumulate certain information that they are unlikely to have collected during the three or more years that have elapsed since the registration process was initiated. For example, registered firms are unlikely to have gathered information concerning certain SEC or Board sanctions that might have been imposed on persons or entities with which they had an arrangement to receive professional services at any time in the period from mid-2003 until the Rule's effective date (Item 2.13). Similarly, Item 2.11 would require reports concerning employees and partners who had received certain SEC or Board sanctions, who may no longer be employed with the registered firm, and as to whom the registered firm may have limited ability to obtain such information.

We respectfully ask the Board to consider delaying the effective date of the proposed Rules in light of the difficulty many registered firms may have in designing and building information systems to accumulate and report accurate data to the Board in the limited time available from final approval of the proposed Rules by the SEC to the reporting due date of June 30, 2007 for the initial Form 2. Accordingly, we believe that implementation of the proposed Rules should be deferred for a reporting period that commences subsequent to approval of the proposed Rules by the SEC. For example, if the SEC approves the proposed Rules in early 2007, the first reporting period for Form 2 would encompass a period from April 1, 2007 to March 31, 2008. This would allow registered firms to have systems in place for the entire initial reporting period As such, the registered firm would file its initial Form 2 with the Board by June 30, 2008. By granting this deferral, it would allow registered firms time to build and revise systems to accumulate data in the proposed format.

Alternatively, if the Board decides not to defer the effective date of the initial Form 2, we believe it should allow a registered firm to accumulate the fee and other required data based on its most recent fiscal year without regard to the April 1 to March 31 reporting period. Furthermore, for the initial reporting period, registered firms would report total

audit fees received from issuers as a percentage of the registered firm's total revenues and would not be required to disaggregate the issuer fee data into the four categories as proposed by the Rules. By allowing registered firms this flexibility, the Board would minimize disruption to the registered firm and would provide it with the time and opportunity to modify its current reporting systems appropriately. On a prospective basis, registered firms would submit the information in the categories as proposed in Form 2 by June 30, 2008 and thereafter.

With respect to submitting the initial Form 3 information within the 35-day period set forth in the proposed Rules, we believe certain information should not be necessary for "catch-up" reporting and have further commentary regarding this information and the submission deadlines in the section entitled "FORM 3 - SPECIAL REPORT FORM."

Proposed Rule 2207(e) and Required Information to be Submitted by non-US Registered Firms

In its proposed Rules, the Board makes an effort to accommodate non-US registered firms by recognizing legal constraints that might be in place in local countries that would prevent a non-US registered firm from providing certain information to the Board. However, we do not believe that the proposed Rules afford the safeguards necessary to prevent a non-US registered firm from potentially violating local country law to comply with the affirmations and information requested as described.

We believe that proposed Rule 2207(e) could undermine protection of non-US registered firms against a breach of local law. Disclosure of protected and confidential information should only be possible when a global protocol exists between local country regulators or a bilateral agreement or an understanding is in place between the Board and the local country regulator. As written, the proposed Rule ultimately requires a non-US registered firm to disclose any kind of protected information and leads to a situation where the non-US registered firm either breaches Board rules or local country law. Accordingly, a non-US registered firm might potentially jeopardize and place at risk, its local licenses.

In addition, we wish to note, for the period from the initial registration of non-US registered firms with the Board to today, no substantial changes in the legal systems have occurred that would enable non-US registered firms to better comply with the proposed Rules for information. As such, we recommend that the same principles in Rule 2105 should govern information requests made by the Board of non-US registered firms. The Board should have the power and authority to obtain all protected and confidential information through home country regulators, but should not be empowered to sanction non-US registered firms that cannot comply with the Board's information requests because of applicable local law.

Form 2

Item 2.2 Amendments

The proposed Rules will require a registered firm to amend its Form 2 report within 14 days if the registered firm becomes aware of information that was incorrect at the time of filing or omitted any affirmation that was required to be included with the filing, unless the error or omission is clearly inconsequential. We ask the Board to reconsider the events that would cause a registered firm to file an amendment to its Form 2. For example, we believe a registered firm should be required to file amendments to its Form 2 report only if the certifications contained at item 10.1 would no longer be true. If the Board declines to change the proposed Rules for amending Form 2, we suggest that the Board consider replacing the "clearly inconsequential" standard with language that clearly sets forth a higher standard. The term "clearly inconsequential" is vague and may be too low of a threshold to enable registered firms to comply effectively. A materiality standard with a higher threshold would be consistent with item 10.1 of Form 2, in which an authorized partner or officer of the registered firm must certify that, based on his or her knowledge, "the Form does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading."

Item 3.2 Firm's Revenues

The proposed Rules will require registered firms to provide certain information regarding their fee data in Form 2, including computing audit fees billed to issuer audit clients as a percentage of total fees billed to all clients. Furthermore, this approach will require registered firms to accumulate fee information in four service categories (audit, non-audit, tax, and other accounting) for their issuer practices, similar to the method used by issuers to disclose auditors' fees in their proxy statements. We believe this approach places an unreasonable burden on a registered firm to capture and compute such categorized fee information as a percentage of its total revenue. Also, in the proposing release, the Board is not clear on how this information, particularly at this level of specificity, will assist the Board in its inspection program or in its evaluation of registered firms.

No regulatory statute existed previously that required public accounting firms to capture and accumulate total disaggregated fee data on a firm-wide basis as proposed by the Rules. As we previously stated, historically, registered firms accumulated disaggregated fee data on an issuer-by-issuer basis to assist the issuer in complying with their disclosure obligations pursuant to the SEC's proxy rules. We will need to make significant modifications to existing financial procedures and information technology to accumulate and report fee information in the categories required by the proposed Rules. If the Board is interested in knowing how significant a registered firm's issuer audit practice is to its overall practice, we believe that there may be other, less costly, ways to obtain this information. Accordingly, we ask the Board to reconsider its requirement for registered firms to provide disaggregated fee information relative to issuers. Instead, we ask the

Board to require a registered firm to submit only its total audit fees charged to issuers as a percentage of its total fees rendered, which we believe would still enable the Board to evaluate the significance of issuer audit practices to individual registered firms.

However, if the Board elects not to change the reporting requirements for audit fees as we suggest in the aforementioned paragraphs, we would appreciate the Board's consideration in revising the proposed Rules with respect to reporting audit fees as we recommend in the remainder of this section.

To avoid confusion among registered firms and issuers, we ask the Board to clarify that the four fee categories contained within its proposed Rules are identical to those categories contained within the SEC's proxy disclosure rules. We believe that the terms as currently defined in the proposed Rules differ slightly from the SEC's terms as they pertain to the four fee categories. The Board could resolve this difference by either amending its defined terms to match the terms used in the SEC's proxy disclosure rules or by expressly stating in a note to Item 3.2, that the Board intends the terms to be identical to the terms used in Item 9(e) of the SEC's Schedule 14A.

We ask the Board to consider implementing an overarching, principles-based approach for registered firms to report fee data. This principles-based approach would allow each registered firm to determine how best to accumulate the fee data for computing its percentage of fees in each of the designated categories. The registered firm would be required to provide a description of the methodology employed in determining the aforementioned percentages in its Form 2 report. Using this approach would provide some flexibility to each registered firm in utilizing its available resources and possibly avoid making costly modifications to existing systems and procedures. Furthermore, since the Board is asking for data that are more directional than precise, it might be helpful if the Board considers allowing a registered firm to report its fee revenue in the form of ranges, e.g., 0 -10%, 10 – 20%, etc. This approach would allow a registered firm some discretion in accumulating the fee data and still provide the Board with a reasonably accurate barometer of a registered firm's percentage of its fees in each of the categories.

Item 4.1 Audit Reports Issued by the Firm

We urge the Board to reconsider the reporting requirements under Item 4.1. We wish to emphasize that the information being requested already exists in the public domain. The SEC's Edgar database contains each issuer's required periodic filing with the SEC. In compliance with the securities laws, each issuer files with the SEC, its most recent annual report, which contains the audited financial statements of the issuer, and the auditor's report thereon, with the applicable auditor's report date. Accordingly, we ask that the Board delete the requirement that a registered firm include in its Form 2 reporting a listing of its issuer clients for which the registered firm issued an audit report and the date(s) of the audit report. We make this request to the Board to eliminate a process that results in the reporting of duplicative information that is already publicly available.

If the Board declines to eliminate the requirements in Item 4.1, we ask the Board to consider clarification of the following:

- The proposing release on page 4 states that required reporting includes information on whether the registered firm issued any audit reports for an issuer during the reporting period. In Item 4.1, the registered firm is asked to provide the dates of the reports. The Board may wish to clarify whether the date to be provided on Form 2 is (a) the date of the auditors' report, (b) the report release date pursuant to Auditing Standard No. 3, or (c) the date the issuer files the report with the SEC.

Item 5.2 Audit-related Memberships, Affiliations, or Similar Arrangements

We find unclear the term "alternative practice structure" as used in Item 5.2(a) (3) and believe that additional clarification of this term would be helpful.

Item 6.1 Number of Firm Personnel

The proposed Rules for Form 2 in Item 6.1d require the registered firm to report information regarding certain categories of individuals who provided audit services during the reporting period. The proposed Rules may result in a registered firm reporting all individuals, who charged any time to an audit of an issuer. For example, we interpret the proposed Rules to require registered firms to report certain individuals, (e.g., tax, information technology, valuation experts, etc.,) who are primarily involved in providing non-audit services, but have charged minimal hours in support of an issuer audit, but whose job responsibilities primarily are devoted to non-audit services. We expect that many registered firms may be unable to supply such information that is tailored to the terms of the proposed Rules. As such, reporting of this type of data might result in the Board receiving irrelevant or even misleading information regarding the portion of the registered firm's personnel who provide services in support of the audits of issuers. We recommend that the Board revise the proposed Rules to require the registered firm to report only for those individuals who work primarily in the audit practice.

We suggest that the Board reconsider the information needed for specific categories of professionals who perform audit services for issuers and whether minimum thresholds are necessary for reporting hours associated with those individuals. For registered firms, a more effective approach might be to track the definition of "persons associated with a CPA firm." That is, accountants who are partners, managers, or staff of the registered firm and provided 10 or more hours of audit service to any issuer during the last reporting period would be reported on Form 2. However, it should be noted that registered firms might not currently have systems in place to capture this information and would therefore be required to develop them.

We also ask that the Board consider its requirement regarding the number of personnel that a registered firm is required to report. We believe that the Board should consider allowing registered firms to report the number of personnel in ranges, by category, e.g., 0-100, 100-500, 500-1000, and over 1000.

Item 7.1 Certain Sanctioned Individuals

The proposed Rules will require a registered firm to disclose whether, during the relevant reporting period, the registered firm has taken on individuals or otherwise become owned by an individual who had been subject to certain disciplinary sanctions within the last five years. The proposed Rules appear to apply to all individuals, regardless of job function, taken on by the registered firm. We are concerned as to the unintended consequences that may arise regarding individuals whose sanctions are required to be disclosed. In many situations, a registered firm may decide not to hire an individual, regardless of the substance of the prior sanction or the type of position the individual may be seeking. Consequently, a registered firm may be reluctant to hire such individuals if the registered firm must disclose the individual's prior sanctions. As such, the individual's employment prospects could be adversely affected by such a disclosure. We recommend that the Board reconsider the requirements under the proposed Rules to determine if the disclosure requirements should be less restrictive for registered firms who are considering employing such individuals who are not applying for senior-level positions within the firm, are not being hired to work on issuer audits or who were subject to relatively minor sanctions. In addition, we ask the Board to consider if the requirement for a registered firm to disclose an individual's prior sanctions may result in a duplication of prior public notice.

We also have concerns regarding the reporting period required under the proposed Rules, which potentially might require registered firms to report an individual on Form 2, even though the individual is no longer associated with the registered firm. This issue is further complicated in that, in the absence of prior guidance by the Board, a registered firm may not have been permitted by home country law to have gathered such information while the individual was employed by the registered firm. A registered firm may find it impossible to provide assurance that its information is complete with respect to an individual who has left the registered firm before the end of the reporting period. The "catch up" period reaches back several years and the registered firm may lack the ability to fully develop relevant information with respect to these individuals. We suggest the Board consider requiring a registered firm to report only those individuals still associated with the registered firm at the end of its reporting period or as of the required filing date of the initial Form 3 report. We also believe that it would be helpful to clarify that "within the last five years" refers to five years from the close of the reporting period or from the date of registration, whichever is shorter.

Issues involving sanctions of individuals are highly sensitive. Achieving the proper balance between the (a) appropriate transparency to the marketplace of matters involving deficient performance, and (b) premature public disclosure of information that can have serious implications to an individual's career, as well as broader implications on the profession's ability to attract and retain talent, is a challenging and complex issue. Given the importance of, and inherent difficulty in, striking this balance, we recommend that the Board convene a meeting with representatives of registered firms and other interested parties, to discuss further this proposed Rule.

Item 7.2 Individuals Connected with Certain Sanctioned Firms

Similar to Item 7.1, the proposed Rules will require a registered firm to report when it has taken on certain individuals connected with a sanctioned firm, or otherwise becomes owned by an individual who was connected with a sanctioned firm. We share the Board's concern in which certain individuals could attempt to circumvent sanctions against their previous firm by aligning themselves with a new firm. However, if a situation occurred where a large firm is subject to a sanction and subsequently ceased operations, the proposed Rules could require multitudes of registered firms to report individuals who were forced to find employment with other firms. We suggest the Board consider whether the reporting requirement should apply only to those individuals who take on a senior role within the reporting registered firm with whom they become associated. We also repeat our observation with respect to Item 7.1 regarding the timing and reporting of such individuals; the final Rules should require reporting only those individuals who are still employed with the registered firm at the end of the reporting period.

It also may be difficult for a registered firm or an individual to determine if an individual was with a sanctioned firm at "the time of the conduct giving rise to the sanctions." For example, an individual may have left his or her former registered firm before the sanction was imposed. Accordingly, neither the individual nor the registered firm will have a practical ability to monitor and obtain the information called for in the proposed Rules. We suggest registered firms be required to report only those individuals who were with a sanctioned firm at the time a sanction was issued. In the alternative, we suggest that the burden for tracking this type of information will be reduced if a time period were specified for the period in which, after an individual has become associated with the registered firm, the sanction order must have been entered. For example, a sanction order entered against the prior registered firm more than a year after the individual was taken on by the reporting registered firm would not be required to be included in Form 2.

Item 7.4 Certain Arrangements to Receive Consulting or Other Professional Services

The proposed Rules will require a registered firm to disclose whether it has entered into a "contractual or other arrangement to receive consulting or other professional services" from any individual or entity meeting the criteria described in Items 7.1a, 7.2a, or 7.3a. We believe that the requirement, as written, is overly broad. The registered firm may already be a party to an arrangement with an individual, who had been subject to such disciplinary proceedings, to consult on matters unrelated to audits of issuers. Accordingly, we request the Board to reconsider this proposed Form 2 requirement and limit it to individuals or entities that have arrangements to consult or provide other professional services relative to audits of issuers. We also repeat our observation with respect to Item 7.1 regarding the timing and reporting of such information and stress the importance of limiting the reporting requirements to arrangements in existence at the end of the reporting period, as information in the earlier period could include information not

relevant to the Board and difficult to develop. This situation is even more critical with respect to arrangements existing during the catch-up period for information that may be difficult or impossible for the registered firm to obtain.

Item 8.1 Acquisition of Another Accounting Firm or Substantial Portions of Another Accounting Firm's Personnel

We support the proposed Rules regarding the reporting of an acquisition of another accounting firm or substantial portion of another accounting firm's personnel. However, we ask the Board to consider eliminating the 75% threshold in Item 8.1.c or limiting the requirement to situations in which the number of individuals from another firm is significant with respect to the registered firm. Alternatively, the Board could consider a significance test analogous to Rule 3.05 of Regulation S-X, which would require a registered firm to report only significant acquisitions of businesses or personnel.

We also ask the Board to clarify if the proposed Rules apply only to one transaction or a series of transactions. In addition, if the proposed Rules apply to a series of transactions, we are unclear as to whether the proposed Rules relate to a specific timeframe, e.g., within one reporting period.

Item 9.1 Affirmation of Consent

Most non-US registered firms were unable, due to legal impediments, to provide the Item 8.1 consents when their Forms 1 were submitted. In lieu of those consents, non-US registered firms included a standardized best efforts wording in Form 1. We suggest the Board consider applying these best-efforts principles to the proposed Form 2; however, this approach will require a revision of Rule 2207(e). Accordingly, we find it unclear as to whether the Board will accept such "qualified consents" in its Form 2 reports, and if not, the procedures that the Board would require. We also believe that the concept of a Home Country Principle should apply to non-US registered firms and that each registered firm "use its best efforts to secure and enforce" the consents of cooperation from its associated persons. We also suggest that the Board consider amending Note 2 to Item 9.1c., to recognize the difficulty of determining, on an associated person by associated person basis, whether the Rule 2207 statement is "sufficient to satisfy the requirements of subparagraphs (2) through (4)" by making clear that the registered firm's reasonable belief in the sufficiency of the Rule 2207 statement will satisfy the requirement.

FORM 3 – SPECIAL REPORT FORM

The proposed Rules introduce a requirement in which a registered firm will be required to file a special report on Form 3 if any of the reportable events described in Form 3 occur, and to file that special report no later than 14 days after the event. With due respect to the Board's statement in the proposing release that many firms may never experience a reportable event, our view is that the triggering events described in Form 3 will likely occur more often in larger registered firms than smaller registered firms and will likely not be infrequent.

14-Day Reporting Requirement

We suggest that the Board reconsider its conclusion that 14 days is sufficient time for a registered firm to detect the occurrence of a potentially reportable event, to determine if it satisfies one of the Items under Form 3, and to complete the information gathering process and prepare and submit a Form 3 report, especially if the event involves legal proceedings relating to the firm or its personnel. The 14-day rule could be particularly difficult to comply with in situations where the reportable event is triggered by the conduct of an individual rather than by the registered firm's conduct. Moreover, in many countries, registered firms must seek legal opinions on whether disclosures of such matters would conflict with local laws, prepare extensive documents when requesting confidential treatment, and translate the documents and laws into the English language. In certain situations, the registered firm would be required by local law to obtain the consent of individuals before the event could be reported on Form 3. We submit that a substantially longer time is required to permit a firm to gather, evaluate, and adequately report the event on Form 3. We believe that a minimum of 60 days seems a more appropriate period in which a registered firm should be required to report such events.

We also suggest that for purposes of the catch-up period, the reporting of proceedings involving individuals should be limited to those who are with the registered firm on the date that the Rules become effective. We find it difficult to understand how information about departed professionals will serve any purpose of the Board; in addition, it may be difficult or impossible for registered firms to obtain the information required by Items 5.1 and 5.2 as to matters that involve former professionals.

Item 2.1 Withdrawn Audit Reports
Item 2.4 Unauthorized Use of Firm Name

We believe that an issuer's compliance with the SEC's Rules, including filing requirements pursuant to the 1933 and 1934 securities acts, is a matter involving questions of compliance with the securities laws. The auditor's responsibility should not be confused with those of the issuer or its legal representative. We believe the auditor's responsibility in these instances is defined by the Board's auditing standards, namely AU 561.08. Under AU 561.08, if a company fails to take appropriate action to prevent reliance on the independent auditors' report, the auditor notifies the appropriate regulatory agencies having jurisdiction over the company that the auditors' report should no longer be relied upon.

We believe that the purpose of the proposed Rule would be clarified if Item 2.1 were changed to say "...and the *issuer* has failed to comply with a *Commission* requirement to make a timely report concerning the matter pursuant to Item 4.02(b) of *Commission* Form 8-K." Making clear that only an issuer's failure to comply with subpart (b) of 4.02 of Form 8-K triggers the Item 2.1 reporting requirement, would clarify the registered firm's responsibilities, and be consistent with the reference in the Reporting Release to Section

10A(b) of the Securities Exchange Act of 1934 (regarding the auditor's responsibilities concerning potential illegal acts).

Accordingly, we request the Board to reconsider the procedures for reporting trigger events for Items 2.1 and 2.4 in Form 3 and if those procedures duplicate other long-standing requirements in AU561.08 and Section 10A of the Securities Exchange Act of 1934, respectively.

Certain Legal Proceedings

Items 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.10, 2.14 and 4.1

The wording "the firm has become aware" will not provide sufficient guidance to registered firms. We suggest that the Board utilize alternative wording assigning responsibility to report such circumstances that "senior management responsible for operations of the firm knows to have occurred." To avoid the possibility that this could result in certain events going unreported, the Board's adopting release could contain guidance suggesting that the Board reasonably expects that registered firms will act in good faith to design systems to capture reportable information and to require registered firm personnel with knowledge of such events to provide notice to senior firm management. We also believe that similar prefatory language should accompany Items 2.1, 2.2, and 2.3, which as proposed, do not appear to contain a knowledge component.

Items 2.5 – 2.8

We believe that the trigger for reporting events under these Items is overly prescriptive and burdensome. In particular, we believe that the phrase "has become a defendant or respondent" is ambiguous; a more accepted terminology would be that the registered firm or the individual "has been charged" with the violations described in the Item. We believe it would clarify the registered firm's reporting responsibilities if the Board used this terminology. We also suggest that Items 2.5 and 2.6 be changed to make clear that only crimes that are misdemeanors and felonies, or their equivalent under non-US laws, must be reported. Acts that in the US are considered to be "quasi crimes" (i.e., certain civil offenses that are not felonies or misdemeanors but may permit criminal penalties) are in certain jurisdictions deemed criminal in origin, and we do not believe it is the Board's intent to require the reporting of such events.

Items 2.6 and 5.1

We believe that including a crime involving "false statements" or "dishonesty" is overly broad and ambiguous, and will result in reporting charges that have little or no relation to the type of conduct relevant to the Board's concerns. Moreover, the clause regarding "alleged conduct that, if proven, would bear materially on the individual's fitness to provide audit services to issuers" is impermissibly vague and subjective, and does not provide the registered firm sufficient guidance to satisfy due process. We note that the ability of registered firms to obtain this information as it pertains to individuals largely

rests on self-reporting, and the lack of clarity in the proposed Rules would present an insurmountable obstacle to consistent reporting. It also would apply regardless of whether the individual in fact provided audit services. Uncertainty also could exist as to whether the registered firm would need to report the event if the firm suspended, terminated, or otherwise prohibited the individual from providing services to issuers after learning of the proceeding.

Items 2.7 and 2.8

It is not clear to us why proceedings involving the provision of services other than those involving the audit function should be of concern to the Board; we note that similar information required to be submitted (as specified in the Sarbanes-Oxley Act) in connection with the application for registration did not include proceedings arising from non audit-related activities. Accordingly, we submit that Items 2.7 and 2.8 should be reworded to replace the word "client" with the word "issuer" so that it is clear that these requirements are not intended to include individuals within a registered firm who have no involvement in issuer audits. The final rule also should clarify that "proceedings initiated by a governmental entity" is limited to such entities carrying out a governmental function, as opposed to a governmental entity that is suing on private rights, e.g., an insurance department suing in a private capacity, as receiver of an insurance company. The rule also should specify that "administrative or disciplinary proceedings" are those brought by governmental agencies, not, for example, those brought by nonpublic membership organizations.

Other Observations Regarding Criminal Proceedings

- We are uncertain if the proposed rules require a registered firm to actively search for such information. We believe clarification is necessary in this respect. Furthermore, the registered firm or the firm's personnel may be unable to disclose the event due to secrecy obligations or laws in certain countries and thus the firm would be unable to comply with this reporting requirement. In some situations, the action of reporting that a matter exists even on a no-name basis may conflict with certain secrecy obligations.

- The term "member" was not used in Form 1 and the need for disclosure of certain criminal, civil, and administrative proceedings in Form 1 was limited to associated persons, which for non-U.S. firms, would only include partners and managers. It is unclear whether the term "member" is intended to include employees in general. It is our belief that it would seem reasonable and consistent to use the definition of "associated persons" as used in Form 1 for non-US firms.

With respect to the civil proceedings, we believe the reporting should be limited to issuer clients.