

(letterdate)

(nameline)
(title)
(organization1)
(address1)
(address2)
(city) (city), (statelong) (zip9)

Dear (salutation2b),

Thank you for contacting me about the Securities and Exchange Commission's (SEC) proposed Auditor Independence Requirements (AIR) rule. I apologize for the delay in getting back to you.

As you know, in June the SEC issued a proposal for new AIR rules that would attempt to identify and limit the types of services auditors could provide to their SEC-registered clients that compromise an auditor's independence. This proposed rule identified ten specific things that the SEC considers to be incompatible with auditor independence. Although the SEC listed eight of these ten items as non-controversial codifications of existing SEC or professional restrictions, two new provisions -- one on internal audit outsourcing and one on financial system design -- were not currently covered by SEC or other professional standards prohibitions, and generated most of the SEC's public feedback. In fact, the SEC reports having received more than 3,000 comment letters as well as testimony from over 100 witnesses at its four public hearings on the AIR rule.

Having said that, on November 15, the SEC announced that it had reached an agreement with the nation's leading accounting firms on a final version of its proposed AIR rule. This Final Rule compromise maintains most of the proposed limits on non-audit services, but it does allow for some exceptions in certain cases. The modified Final Rule replaces the proposed prohibition on internal audit service with a partial ban that allows auditors to perform up to 40 percent of internal audit work for clients. The Final Rule also retains its ban on auditors operating a client's financial information systems, but does permit auditors to offer some consulting services provided there are internal client safeguards and open disclosure.

Having said that, the SEC's work on its Final Rule on AIR is complete, and the rule is scheduled to take effect on February 5, 2001, after it has been submitted to Congress for review in accordance with established federal rulemaking procedures.

Again, thanks for contacting me.

Respectfully yours,

A
DICK ARMEY
Member of Congress