# COUNCIL OF INSTITUTIONAL INVESTORS

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January 28, 2005

Office of the Secretary
PCAOB
1666 K Street NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 17

Dear Secretary:

The Council of Institutional Investors, an association of more than 140 corporate, public and union pension funds collectively holding more than $3 trillion in pension assets, is writing in support of the PCAOB's proposed "ethics and independence rules concerning independence, tax services, and contingent fees." Although the proposed rules fall somewhat short of Council policy, the Council commends the PCAOB for taking a significant step forward to address investor concerns over auditors' independence.

Council policy holds that a company's external auditor should not perform *any* non-audit services for the company, except those required by statute or regulation to be performed by a company's external auditor, such as attest services. That standard was adopted because it reassures investors that the auditor of a company's financial statements has no other financial interest at stake with the company, and, therefore, it can be objective. The rules proposed in the board's release aim towards the same goal by deeming certain tax-related activities as impairing an auditor's independence—making it clear that those activities cannot be performed for an audit client.

The board has also proposed two steps, which taken together, could have a positive effect on auditor independence. First, it has reaffirmed the audit committee's responsibility to determine that an auditor's non-audit work for the company would not jeopardize the auditor's independence and to pre-approve such work. Second, it has reinforced the auditor's responsibilities in relation to seeking audit committee approval of tax services, by requiring the audit firm to provide its client with information it needs to make an informed judgment about independence. Although, from our perspective, such an arrangement is a "second-best" solution, these policies should cut down the number of inappropriate uses of audit firms for non-audit purposes.

Please contact me with any questions.

Sincerely,

Ann Yerger

Ann Yerger
Executive Director