



Business Roundtable

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February 14, 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*
PCAOB Release No. 2004-015: Proposed Ethics and Independence Rules
Concerning Independence, Tax Services, and Contingent Fees

Henry A. McKinnell, Jr.
Pfizer
Chairman

Edward B. Rust, Jr.
State Farm
Co-Chairman

John J. Castellani
President

Larry D. Burton
Executive Director

Johanna I. Schneider
Executive Director
External Relations

Ladies and Gentlemen:

This letter is submitted on behalf of Business Roundtable, an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees in the United States and \$4 trillion in revenues. We appreciate the opportunity to provide our views on the auditor independence rules proposed by the Public Company Accounting Oversight Board (“PCAOB”) on December 14, 2004. Business Roundtable supports the PCAOB’s efforts to promote the independence of registered public accounting firms that audit the financial statements of public companies. Although not all of the PCAOB’s proposals impact Business Roundtable companies directly, there is one aspect of the proposals, relating to audit committee pre-approval of permitted tax services, that Business Roundtable believes is impractical and unnecessary.

The PCAOB’s proposed Rule 3524, on audit committee pre-approval, would impose specific responsibilities on the outside auditor in connection with the process of obtaining pre-approval of permitted tax services. The rule would require that a company’s outside auditor: (a) provide the audit committee detailed documentation of the nature and scope of the proposed tax service, including an engagement letter describing the scope of the tax service and the fee structure for the engagement; (b) discuss with the audit committee the potential effects of the proposed tax service on the auditor’s independence; and (c) document the auditor’s discussion with the audit committee.

If adopted, the proposed rule would require audit committee pre-approval of each separate engagement to provide tax services, including pre-approval of a separate engagement letter relating to each proposed tax service. Mandating that audit committees review each engagement letter and approve each individual engagement to provide tax services raises enormous practical problems for audit committees charged with responsibility for engaging the outside auditor to provide tax services at locations and for employees around the world. By way of example, in 2004, one Business Roundtable member company had approximately 660 different engagements with its outside auditor to provide tax services, approximately 630 of which involved fees less than \$50,000. If the company’s audit committee had reviewed and approved each of

these engagements separately, as the PCAOB's proposed rule would require, the committee would have devoted approximately 170 hours (or three to four 40-hour work weeks) just to discussing proposed tax services with the outside auditor and approving these services. In other words, the audit committee would have discussed with the outside auditor and approved tax services engagements at the rate of nearly two engagements per day in 2004.

In addition to spending time discussing individual engagements with the outside auditor, under the PCAOB's proposed rule, audit committee members would be required to spend time outside of meetings preparing for these discussions and reading engagement letters and other written materials relating to proposed engagements. Companies would be required to expend additional resources collecting detailed information, in a centralized location, about engagements to be performed throughout the world and preparing materials related to these engagements for audit committee review. Audit committees would assume the responsibilities relating to the pre-approval of tax services on top of the responsibility to pre-approve other types of services and all of their other work. Given the substantial responsibilities that audit committees must perform, Business Roundtable does not believe that requiring pre-approval of individual engagements to provide tax services is practical for the audit committees of large, multinational companies with business operations throughout the world.

Business Roundtable also has concerns that the PCAOB's proposed rule effectively would preclude audit committees from relying on pre-approval policies to authorize the provision of permitted tax services. The PCAOB states in its proposing release that the proposed rule "does not dictate, or even express a preference as to, whether the documentation and discussions required . . . should take place pursuant to an audit committee's policies and procedures on pre-approval or on an ad hoc basis." As a practical matter, however, the detailed nature of the documentation and discussions that are required under the proposed rule would necessitate pre-approval of tax services on an "ad hoc," engagement-by-engagement basis. We understand that there may be circumstances where an audit committee believes it is appropriate to approve a particular engagement to provide tax services or review an engagement letter relating to the provision of specific tax services. However, particularly for engagements that are small or routine, pre-approval policies can serve as an effective, administratively feasible way of enabling audit committees to fulfill their pre-approval duties consistent with their responsibility to oversee the independence of the outside auditor. In this regard, the PCAOB's proposed rule essentially would eliminate pre-approval policies as an avenue for approving tax services.

In determining whether to pre-approve specific services, the focus of the audit committee should be on whether the tax services in question have the potential to impact the outside auditor's independence, rather than on whether the audit committee and the auditor have followed a specific process. Requiring audit committees to review a host of detailed documentation and to discuss every proposed tax services engagement with the outside auditor is likely to result in "information overload" that will produce little, if any, benefit in terms of promoting auditor independence and diligent audit committee oversight of auditor independence. We believe that audit committee members at public companies take seriously their responsibility to pre-

approve services provided by the outside auditor and to consider what impact, if any, providing tax or other non-audit services may have on the auditor's independence. To facilitate meaningful, thoughtful consideration of the pertinent issues, audit committees should have the flexibility to structure their processes in the manner they believe will be most effective in promoting effective, diligent oversight of the outside auditor's independence.

For the reasons discussed above, Business Roundtable believes that the PCAOB's proposed rule on audit committee pre-approval of permitted tax services would create practical problems for audit committees without furthering the goal of promoting auditor independence. Accordingly, we believe that the proposed rule is unnecessary and should not be included as part of the PCAOB's auditor independence rules that are submitted to the Securities and Exchange Commission for approval.

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Thank you for considering our comments. Please do not hesitate to contact Thomas Lehner at Business Roundtable at (202) 872-1260 if we can provide you with further information.

Sincerely,



Steve Odland
Chairman, President & CEO
AutoZone, Inc.
Chairman
Corporate Governance Task Force
Business Roundtable

cc: William J. McDonough, Chairman
Kayla J. Gillan
Daniel L. Goelzer
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