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Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803

Attention: Office of the Secretary

Re: Docket Number 001

Dear Board Members:

McGladrey & Pullen, LLP is please to provide input to the Public Company Accounting Oversight Board (PCAOB) as you consider the proposed registration system for public accounting firms. We are one of the largest audit firms in the United States, and we appreciate the opportunity to participate in this very important process. Following are our comments regarding certain aspect of the proposed rule.

**Appendix 1, Proposed Rules Relating to Registration**

**Section 1, Rule 1001 (a) – Definition of Accountant**

Included in the definition of accountant is a natural person who "holds an undergraduate or higher degree in a field, other than accounting, and participates in audits." Under this definition, clerical or administrative staff with a degree who work on an audit client performing clerical or administrative functions would appear to be considered an accountant. We recommend this definition be clarified to exclude individuals who perform services solely in an administrative or clerical capacity.

**Section 1, Rule 1001 (m) – Definition of Person Associated With a Public Accounting Firm**

The proposed definition of "person associated with a public accounting firm," includes "any independent contractor or entity that, in connection with the preparation or issuance of any audit report ... receives compensation in any form from, that firm." We believe that "specialists" (as defined in Statement on Auditing Standards No. 73, Using the Work of a Specialist) engaged by a public accounting firm should be specifically excluded from this definition. If specialists are not excluded from this definition, the actions of such individuals and firms would require disclosure in Items 5.1 – 5.4 of Proposed Form 1. We anticipate that public accounting firms would have difficulty in obtaining the information required by those items.

In addition, we believe specialists would be very reluctant to be engaged by a public accounting firm if they were required to give their consent to the firm as required under Item 8.1 of the proposed Form 1, Consents of Applicant.

We note that specialists engaged by the client would not be subject to these requirements.

**Appendix 2, Proposed Form 1**

**Part II, Item 2.1, Issuers for Which Applicant Prepared Audit Reports During the Preceding Calendar Year and Item 2.2, Issuers for Which Applicant Prepared Audit Reports During the Current Calendar Year**

The fee disclosure requirements under section 2.1 and 2.2 utilize a combination of fee disclosures required under the Commission's 2000 proxy disclosure rules pursuant to Item 9 of Schedule 14A and the Commission's recently revised fee disclosure rules that become effective for fiscal years ending after December 15, 2003. The gathering of the fee information for the initial registration in this format with respect to calendar years 2002 and 2003 will involve significant time and effort. In some cases, this level of historical detail may not be available.

We ask the Board to consider a transition period for the initial registration to require those fee disclosures that can be extracted by the public accounting firm from existing proxy filings. The required disclosures under sections 2.1 and 2.2 could be updated in future filings with the Board once the Commission's revised fee disclosure requirements become effective.

**Part V, Listing of Certain Proceedings Involving the Applicant's Audit Practice**

Part V of the proposed registration rules requires an "applicant" to disclose six specified categories of activity arising out of criminal, civil, administrative and disciplinary proceedings. In Sarbanes-Oxley, Section 102(b)(2)(F), Congress granted the PCAOB authority to require disclosure of pending, not past, litigation or disciplinary proceedings. Congress further limited this authority to proceedings in connection with an audit report prepared for purposes of "compliance by an issuer with the requirements of the securities laws".

The proposed litigation and disciplinary disclosures seek information that is unrelated to audit reports on SEC clients. The non-SEC audit practices of potential applicants are already subject to vigorous and extensive state regulation and enforcement, if necessary. We believe that the proposed registration disclosures should be limited to matters involving SEC audit clients.

The proposed litigation and disciplinary disclosures also demand information regarding past matters. This is a departure from the PCAOB's statutory authority, which is explicitly limited to "pending" matters. Any such departure should be reasonable in its scope, taking into consideration whether matters long since past or the actions of individual partners no longer associated with the applicant are at all relevant to a prospective applicant's "fitness for registration".

The ten-year look back period for adjudicated criminal actions and disciplinary findings under Item 5.4 is onerous and unfair. It subsumes the underlying events and occurrences that may antedate the ten-year look back period by many more years. The relevance of events ten years or older is questionable, even assuming the PCAOB has authority to look back at all. At most, the PCAOB should deploy a three-year look back on all criminal or disciplinary proceedings arising out of audit reports issued on SEC audit clients. At a minimum, the PCAOB should conform the look back period to be consistent with the record retention requirements imposed by Sarbanes-Oxley which acknowledge that after seven years it is unreasonable to expect any institution or individual to maintain records.

As to civil litigation by the government or private litigants, the PCAOB should limit the look back to litigation relating to SEC audit clients. We concur with the PCAOB's proposal that a twelve-month look back on civil litigation involving SEC audit clients is appropriate, provided it is limited to final judgments or an arbitrator's award, and does not include matters resolved by confidential

settlements. The proposed rules should clearly exclude any litigation matter resolved by settlement. In addition, we recommend that the Board establish a de minimus amount under which judgments or awards need not be disclosed.

The proposed disclosure regarding any past suspension from accounting practice under Item 5.5b is not limited by time. The proposed rule should be limited to a reasonable period of time. This proposal also does not balance the relevance of such information against the undue prejudice which will befall a person who has been reinstated and performed admirably for years thereafter.

**Part VIII, Consent of Applicant**

Although we acknowledge that Item 8.1 Consent to Cooperate with the Board is consistent with the Act, we believe that the proposed rule does not allow for any considerations of due process. It does not consider the constitutional rights of an "associated person". Item 8.1 demands that an employee or partner consent to unconditioned cooperation as a condition of continuing employment. This section ignores the employee or partner's individual rights, including constitutional rights that do not compel a witness to testify in certain circumstances.

The proposed rules should take into consideration the foregoing rights. It would be inappropriate to deny an applicant's registration because an employee or partner witness has chosen to exercise his or her constitutional rights.

**Concluding Comments**

Thank you for considering our comments. Questions regarding these or other matters should be directed to William Travis, Managing Partner, 952/921-7780.

McGladrey & Pullen, LLP