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April 9, 2003

Docket Matter No. 002

Dear Members of the PCAOB and staff:

We are pleased to respond to your proposed rule "Proposal for Establishment of Accounting Support Fee."

We follow accounting regulation issues closely and often comment on them in our regular column published in *Accounting Today*. We believe that establishing an appropriate funding protocol is crucial to the PCAOB's long-run ability to function as an effective accounting profession regulator. As a result, we want to share our reservations about the proposed rule.

At the conceptual level, we greatly prefer a system in which at least some of, if not all, the PCAOB's budget is funded through fees imposed on users and investors rather than auditors and managers. The problem with funding from the traditional sources is that it creates expectations for auditors and managers that as the sole resource providers they should have dominant voices in shaping the board's policies and decisions. In lieu of the proposed fees, we prefer the levying of a tax on all transactions accomplished on organized stock and bond exchanges. Although the fees on any single transaction would be very small, the cumulative effect would be more than enough to fund the PCAOB. This arrangement would also make it clear to all participants that the boards are not beholden to or dominated by the very parties that they are charged with regulating. From an administrative standpoint, it would be far easier to tax these transactions, which are already carefully recorded and monitored, than to set up a new system to track monthly company market caps and collect fees based on them.

While we believe auditors and managers have no legitimate basis for assuming that the fee should give them control over the board's processes, everyone knows that similar expectations have haunted FASB. Furthermore, we believe that financial statement users will take a greater interest in the activities of the PCAOB (and FASB, if that board chooses to use the PCAOB to collect its revenue) if they are the funding source.

We recognize that the Sarbanes Oxley Act, as enacted, contemplates funding only by public companies and does not allow for direct investment in the oversight process by investors. Even if the present form of the legislation does not allow a transaction tax, we believe that your discussion of the funding protocol will be enhanced by considering this alternative. As the whole regulatory framework inevitably evolves, perhaps these benefits can be harvested later when the legislation is amended.

As the PCAOB embarks on its mission to regulate the accounting profession, we would also like to point out another general concern about sources of funding. To an extent, it is clear that the PCAOB has used FASB as its model in devising its structure and processes. However, we encourage you to deviate from FASB's practice of charging for its publications. Although dependence on publication sales is misaligned with FASB's fundamental mission, the board relies on this source for more than half of its revenues. In contrast, we think FASB and PCAOB pronouncements should be essentially free for the asking, at least through Internet distribution channels, with pricing for hard copies sufficient only to cover printing and binding costs. Why? Because each board's overriding purpose is to enhance the flow of useful information from corporations to users and investors. We find unacceptable irony in the fact that investors can get annual reports and 10Ks for free but have to pay to get the FASB standards they may need to interpret those documents. We also find it unacceptable that practitioners must incur these costs to inform themselves and their staffs about new developments. Rather than discouraging education, we think the boards should encourage it by distributing their documents freely.

As another argument, we note that existing FASB standards and publications essentially define legal constraints on practice, as will PCAOB releases; therefore, they are public records and, as a matter of policy, should be readily accessible to all interested and affected parties. Perhaps when FASB was created in the days before the Internet, charging for documents was not an issue because people were accustomed to paying for information because it was only available in printed form. Now that documents of all kinds are but a few clicks away, FASB's longstanding practice of selling standards is anachronistic. However, dependence on this revenue stream forces the FAF to cling to its copyrights, and the public either has to buy the documents, pirate them, or go to a library (few of which actually have them). Thus, we urge the PCAOB to distribute its pronouncements without charge over the internet and at only nominal cost for printed versions. We applaud FASB chair Bob Herz for leading the Financial Accounting Foundation to implement a similar plan.

As the PCAOB reviews its proposed corporate funding protocol, we suggest that you consider another change. Specifically, the proposed formula excludes the smallest public companies from any financial responsibility and then imposes a strictly proportional responsibility for companies with market caps that exceed the $25 million threshold. While there are no doubt greater operational and financial complexities in the largest companies, we doubt that they translate proportionately into greater audit complexity. (For that matter, we are not convinced that audit complexity is the appropriate driver for the fee.) That is, this proposed protocol fails to reflect the fact that the benefits from having the PCAOB in place will accrue to the managers and shareholders of all public companies, including those falling below the threshold. It is our belief that all public companies should share the financial responsibility for supporting the PCAOB.

As an alternative, we propose a structure that imposes a minimum fee on all public companies of some nominal amount, possibly in the range between $100 and $1,000 per year. In addition, all companies with market caps in excess of a specified amount (possibly the $25 million already in place) would be subject to an additional size-based fee, but with a declining rate as the cap goes higher.

We believe this structure offers advantages over the proposal because it would cause all public companies to participate in the PCAOB's operations. Notably, the collective impact of the fees from the smallest companies will diminish any misperception by auditors and managers of large-cap companies that they are empowered by their larger contributions to dominate the PCAOB's agenda and policies.

We recognize that our recommendations go beyond the scope of your call for comments. However, we have raised these fundamental questions because the funding decision is so important.

In closing, we thank you for the opportunity to participate in your decision-making process.

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