

PROPOSED CONCEPT RELEASE ON RULE 3523
Statement of Charles D. Niemeier
April 3, 2007 Open Meeting

This concept release focuses on a very narrow issue that has arisen in connection with a fairly comprehensive set of rules on audit firms' provision of tax services to audit clients. I am pleased that these rules for the most part went into effect according to schedule last year, and that this small issue is the only one we've identified for additional consideration.

I look forward to comment on the issue raised in the concept release. It is symptomatic of a problem that has concerned me for some time, which is that over the last couple of decades auditors have not done a very good job of avoiding risks to their independence, leading to actual and perceived impairments. Impairments to independence not only affect investors' confidence in individual audit reports, but they can also affect investors' confidence in audits generally.

The way perceived impairments to independence have historically been addressed is to add rules to cover new situations that arise. But as the list of *per se* independence impairments has grown, so have the difficulties in finding auditors without conflicts. At times, conflicts have been resolved with individualized exemptions, but this is not a solution I favor. Such a process is not transparent or accessible to investors, and thus in fixing a conflict it may nevertheless further erode investor confidence that the rules protect auditor independence. Therefore, to avoid exacerbating the problem of increasing

conflicts, I think we need to be as careful as we can be to to make sure our rules are no broader than necessary.

In short, I support the concept release. I encourage and look forward to comments.