

May 12, 2003

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

PCAOB Rulemaking Docket Matter No. 003, *Proposal of Ethics Code For Board Members, Staff and Designated Contractors and Consultants*

Dear Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the proposals of the Public Company Accounting Oversight Board (the Board). We are pleased to submit our comments on PCAOB Rulemaking Docket Matter No. 003, *Proposal of Ethics Code for Board Members, Staff and Designated Contractors and Consultants*. We commend the Board for its commitment to the development of high ethical standards for its board members, staff, and outside consultants and contractors. We believe that such an ethics code is absolutely essential to ensure that the Board's missions and objectives are fulfilled and is essential for the restoration of public confidence in the financial markets, the issuers, and the registered accounting firms.

Therefore, we strongly endorse a conceptual ethical framework that would apply the same ethics code to the Board's members and staff. Specifically, the following ethics provisions should apply to all Board members, staff, and designated contractors and consultants:

- **Investments** (Ethics Code Section 5) – In order to restore public confidence, we believe that it is absolutely essential that Ethics Code Section 5 apply to both the Board members and the professional staff, including any outside contractors or consultants. Consistent with the restrictions on employment outlined in the Securities and Exchange Commission's Regulation S-X, we believe that no Board member or professional staff should be in a position to influence an issuer's or an accounting firm's operations or financial policies, have capital balances in an accounting firm, financial interests in an issuer except in a blind trust, or have any financial arrangement with an accounting firm other than fixed continuing payments under a fully funded retirement plan or rabbi trust. The Board's independence rules should mirror those rules already established by the U.S. Securities and Exchange Commission (the Commission) to govern relationships between former partners and employees of an accounting firm and issuers.
- **Outside Activities** (Ethics Code Section 6) – Consistent with the Commission's recent independence rules for registered accounting firms, we believe that no member of the Board or professional staff should undertake any employment or other activity for compensation outside of service to the Board. We believe that subsection (b) should apply only to non-professional staff and to outside contractors and consultants that do not have a conflict of interests in their

service to the Board. Any outside activities, such as outside consulting arrangements, expert services, or legal services, should cease upon a Board member or professional staff's joining the Board. In addition, we would encourage the Board to adopt a policy requiring that all non-professional staff and outside contractors and consultants fully disclose all potential conflicts of interests related to their outside activities, so that the members of the Board may determine the appropriateness of any assignments.

- **Disqualification** (Ethics Code Section 8) – We believe that any member of the Board or professional staff, including outside contractors or consultants, should recuse himself or herself of action or decisions related to an issuer or a registered accounting firm if during the 12 months prior to the individual's joining the Board as a Board member or professional staff, he or she was associated with the issuer or the accounting firm through employment, membership, or partnership. In addition, the individual should recuse himself or herself if he or she performed any accounting or consulting services, including serving as an expert witness or providing legal services, either for or against an issuer or registered public accounting firm, other than through direct performance of a Board function or activity. We believe that the extension of this provision to all professional staff is essential to ensure that decisions made by the professional staff involve the utmost degree of integrity and impartiality. To restore public confidence, the Board must insure that its decisions and the decisions of its staff are not unduly biased toward any issuer or registered accounting firm due to opinions that may have been formed through past dealings, either positive or negative, with an issuer or an accounting firm regulated by the Board.

The proposed ethical standards permit Board members to waive its provisions. We believe that any waiver, including an "implicit" waiver, of any provision of the ethics code should be publicly disclosed, including a description of the waiver and the reasons why the members of the Board believe that such a waiver is in the public interest. Similarly to the Commission's requirements outlined in SEC Release 33-8177, *Disclosure Required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002*, the required disclosure of a waiver or implicit waiver should be made public within 5 business days of the Board's decision through posting to the Board's Internet site in a specified, readily identifiable location. We believe that this addition to the Board's Ethics Code will ensure that the Board and its staff always maintain the public's confidence that the Board is acting, both in fact and appearance, with independence, objectivity, and integrity.

We would be pleased to discuss any of our comments with the Board or its staff. Please direct any inquiries to Karin French, National Partner in Charge of SEC Regulations, at 703-847-7533.

Very truly yours,

Grant Thornton LLP