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May 15, 2002

VIA FACSIMILE

The Honorable Paul Sarbanes
U.S. Senate
Washington, DC 20510

Dear Chairman Sarbanes:

As the Chairman of the Senate Banking, Housing, and Urban Affairs Committee, you will soon be considering legislation that seeks to assure meaningful auditor independence, improve oversight of auditors, and make certain other changes. On April 24, the House passed H.R. 3763, the Corporate and Auditing Accountability, Responsibility, and Transparency Act, sponsored by the Chairman of Financial Services Committee, Michael Oxley (R-OH). Although H.R. 3763 is a first start, it lacks the strength and depth to avoid future debacles such as what happened at Enron and what could happen at other companies.

I am the President of the National Council on Teacher Retirement (NCTR). The organization is made up of 75 state and local government retirement systems that serve teachers and other public employees. The systems, which serve over 10 million state and local government employees, are large institutional investors. Accordingly, we strongly support changes that will improve investor protections.

We have set out below our concerns with H.R. 3763 and ask you to keep our concerns in mind as you consider your version of the legislation.

Assure meaningful auditor independence by limiting non-audit services. H.R. 3763 directs the SEC to prohibit firms from offering financial information system design and internal audits to companies for which they are providing an external audit. It also requires the periodic review of auditor services to determine whether any of them affect auditor independence and should therefore be added to the list of prohibited non-

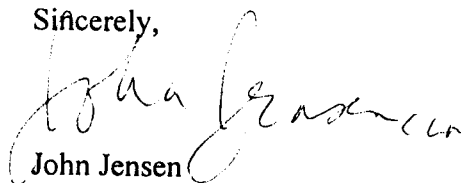
audit services. The bill does not, however, impose any further limitation on non-audit services thus allowing the conflicts of interest that ensue from those arrangements to continue. **We urge the Senate to impose more meaningful limitations on the non-audit services that auditors may perform for their audit clients.**

Improve oversight of auditors by establishing a new entity that is governed by a majority of non-accountants and that has meaningful disciplinary powers. H.R. 3763 directs the SEC to prescribe criteria that would permit the recognition of a Public Regulatory Organization (PRO). We applaud the House's decision to require such an entity to have a board made up of a majority of non-accountants. H.R. 3763 as currently drafted, however, does not provide the entity with an adequate structure and tools. The bill largely delegates the entity's powers and duties to the SEC. **We urge the Senate to endow the new entity with effective disciplinary and investigative powers as well as clear authority to set standards for auditors of public companies.**

Expand the reporting of corporate financial information and make boards of directors responsible to a company's shareholders. While we commend the House for directing the SEC to provide for better disclosure of corporate financial reporting, we believe that, unless corporate boards of directors are more accountable to the shareholders, no meaningful reform is possible. **We urge the Senate to 1) require directors to disclose to the public any potential conflicts of interest, including those affecting familial, professional, and financial interests; 2) impose a stringent definition of independent director and require a substantial majority of board members to fit such definitions; and 3) require all members of a board's audit, nominating, and compensation committees to qualify as independent directors.**

Thank you for your consideration of our concerns. If you have any questions, please contact our Washington Counsel, Cynthia L. Moore, at 702-243-1667.

Sincerely,



John Jensen
President

National Council on Teacher Retirement