

C. Revisions to Reporting and Burden Estimates

1. Communication With Audit Committees

As discussed in the proposing release, we believe that GAAS currently require discussions between the auditors and the audit committee of significant unusual, controversial, or emerging accounting policies, of the process used by management to select certain estimates, and of disagreements with management over certain accounting matters.²⁴⁹ We further believe that audit committees generally are aware of management's letter making representations to the auditors, which the auditor uses in completing the audit of the issuer's financial statements.²⁵⁰ Audit committees also should be aware of "unadjusted differences,"²⁵¹ if any, as a result of the enactment of Section 401 of the Sarbanes-Oxley Act, which added Section 13(i) to the Securities Exchange Act of 1934 ("Exchange Act").²⁵² Under new Section 13(i) of the Exchange Act, therefore, there should be no material "unadjusted differences." In the case of investment companies, we believe auditors already are reporting non-audit services provided to the investment company complex annually and some routinely provide more frequent updates at the request of the audit committee.²⁵³ Because of these GAAS and legal provisions, we believe that the final rules regarding auditor reports to audit committees will not increase significantly the burden hours on accounting firms or registrants.

2. Disclosures of Audit and Non-Audit Services

While we have made some modifications to the proposals relating to disclosure of audit and non-audit services, we do not believe these changes will have a significant effect on the total amount of burden hours for preparing the forms. Accordingly, we

believe that our estimates of the burden articulated in the proposing release have not changed as a result of modifications contained in the final rules.

a. *Proxy and Information Statements.* We estimate that the incremental disclosure changes would impose, on average, two additional burden hours on each of the 7,661 filers of Schedule 14A, or an aggregate 15,322 additional burden hours. We further estimate that approximately 75% of the extra burden hours, or approximately 11,492 hours, would be expended by internal staff and the remaining 25%, or 3,830 hours, would be expended by outside professionals who are retained by the filer. Assuming that outside professional costs would be an average of \$300 per hour, the aggregate annual professional costs would be \$1,149,000. Similarly, we estimate that these disclosures would impose, on average, two additional burden hours on each of the 464 filers of Schedule 14C, or an aggregate 928 additional burden hours. Using the same allocation of hours and cost estimate of professional fees as for Schedule 14A, we estimate that 696 hours would be expended by internal staff and the remaining 232 hours would be for outside professional assistance, producing an outside professional cost of \$69,600.

b. *Annual Reports on Form 10-K.* We estimate that the incremental disclosure changes will impose, on average, two additional burden hours per year on each of the 8,484 filers of Form 10-K. 6,676 of those filers, however, will provide the information under Schedule 14A and 209 of those filers would provide the information under Schedule 14C.²⁵⁴ The burden hours for the disclosure by these filers therefore have been assigned to Schedule 14A and Schedule 14C, respectively. The burden imposed on the remaining 1,599 filers is being assigned to Form 10-K. This results in 3,198 (2 hours × 1,599 filers) additional burden hours for Form 10-K. We further estimate that approximately 75% of the extra burden hours, or approximately 2,399 hours, will be expended by internal staff and the remaining 25%, or 799 hours, will be expended by outside professionals. Assuming that outside professional costs average \$300 per hour, the estimated aggregate annual professional costs are \$239,700.

c. *Annual Reports on Form 10-KSB.* We estimate that the incremental disclosure changes will impose, on

average, two additional burden hours per year on each of the 3,820 filers of Form 10-KSB. 985 of those filers, however, will provide the information under Schedule 14A and 255 of those filers will provide the information under Schedule 14C. The burden hours for the disclosure by these filers have been assigned to Schedule 14A and Schedule 14C, respectively. The burden imposed on the remaining 2,580 filers is being assigned to Form 10-KSB. This results in 5,160 (2 hours × 2,580 filers) additional burden hours. We further estimate that approximately 75% of the extra burden hours, or approximately 3,870 hours, will be expended by internal staff and the remaining 25%, or 1,290 hours, will be expended by outside professionals. Assuming that outside professional costs average \$300 per hour, the estimated aggregate annual professional costs are \$387,000.

d. *Annual Reports by Foreign Private Issuers on Form 20-F.* We estimate that the incremental disclosure changes will impose, on average, two additional burden hours per year on each of the 1,194 filers of Form 20-F, or 2,388 additional burden hours. We further estimate that approximately 25% of the extra burden hours, or approximately 597 hours, will be expended by internal staff and the remaining 75%, or 1,791 hours, will be expended by outside professional costs associated with reviewing the disclosures because this form is prepared by foreign private issuers who rely more heavily on outside counsel for assistance. Assuming that outside professional costs average \$300 per hour, the estimated aggregate annual professional costs are \$537,300.

e. *Reports by Certain Canadian Issuers on Form 40-F.* We estimate that the incremental disclosure changes will impose, on average, two additional burden hours per year on each of the 134 filers of Form 40-F, or 268 additional burden hours. Consistent with our treatment of foreign private issuers filing Form 20-F, we further estimate that approximately 25% of the extra burden hours, or approximately 67 hours, will be expended by internal staff and the remaining 75%, or 201 hours, will be expended by outside professionals. Assuming that outside professional costs average \$300 per hour, the estimated aggregate annual professional costs are \$60,300.

f. *Form N-CSR.* We estimate that the additional disclosure changes will impose, on average, 1.5 additional burden hours per year on each of the anticipated 3,700 filers of Form N-CSR. This results in 5,550 (1.5 hours × 3,700 filers) additional burden hours. We

²⁴⁹ See, SAS 61, "Communication with Audit Committees or Others with Equivalent Authority and Responsibility," AU § 380.

²⁵⁰ SAS No. 85, "Management Representations," AU § 333.

²⁵¹ See, SAS No. 89, "Audit Adjustments," AU § 333.

²⁵² Each financial report that contains financial statements, and that is required to be prepared in accordance with (or reconciled to) generally accepted accounting principles under this title and filed with the Commission shall reflect all material correcting adjustments that have been identified by a registered public accounting firm in accordance with generally accepted accounting principles and the rules and regulations of the Commission.

²⁵³ See, Independence Standards Board, "Independence Discussions with Audit Committees," *Independence Standard No. 1* (Jan. 1999).

²⁵⁴ These numbers are obtained by reviewing the number of filers that filed a Form 10-K and Schedule 14A or Schedule 14C, respectively, between October 1, 2001 and September 30, 2002.